Industrial Distribution

October 1979

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Credit outlook
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experts a[illegible]

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Industrial Distribution

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A Morgan-Grampian publication

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Indicators. . .

Purchases of industrial supplies declined nationally in July for the first time this year, according to the *NIDA-SIDA Industrial Distribution Index*. The index, compiled from the monthly sales figures of 100 distributors, seasonally adjusted, stood at 276.3, down 3.1 points (1.1%) from June, but 37.7 points (15.8%) over the year-before level. The *NIDA-SIDA Inflation Index*, based on the sales prices of 10 products, was at 224.6 in July, up 1.8 points (0.8%) from June and 15 points (7.2%) from the year-before level. (Both indexes are 1967=100.) Regional sales, comparing July to month-before and year-before levels, were: east, 242.7, down 1.3% and up 18.2%; midwest, 264.7, down 2.1% and up 13.5%; west, 297.1, down 2.2% and up 25%; south, up 1.5% and up 14.8%...The July *ASMMA New Order Index* was up 3.1 points (1.2%) after June's decline to 257.2. The two-month, moving average was 32.8 points (14.4%) higher than a year before...The *FRB Index of Production Manufactures* was at 146.7 in July, up 0.4 points from June...The *SIDA Monthly Sales Trend Report* for July showed a 13.2% decline over June, with a 4.9% increase over the year-before level. Area II (Fla., Ga., S.C., P.R.) had the only rise in sales in the June-to-July period, up 2.8%, while area IV (Ark., La., Okla., Tex.) was the biggest loser, with a 23% drop...The *Welding Supply Index* of the National Welding Supply Assn. registered its second consecutive monthly decline in July. The index slid to 124.7, down 6.9 points (5.5%) from June...Demand for aluminum sold through distributors dropped in July for the fourth straight month, according to the National Assn. of Aluminum Distributors. The new level of 209.2 points was down 17.7 (7.8%) from June, a drop of 5.8 points (2.6%) from the year-before level...Machine tool orders for the first two quarters of 1979 were 35% higher than those of the same period in 1978, according to the National Machine Tool Builders Assn. The NMTBA said the latest six-month total amounted to $2.8 billion. July's net new orders totaled $362.3 million, up 13% over the year-before level...Capital-spending plans remained strong through midyear, the Conference Board said.□

REGIONAL REPORT

July sales decline; fewer sales ahead?

Sales of industrial supplies took another drop in July, according to *Regional Report* correspondents, down 3% for general liners and 5% for specialists.

General-line sales had already slipped 8% from May to June, while specialists were steady during that period, indicating that a time of slack sales is upon us—just as economists predicted.

Despite disappointing performance in June and July, distributor sales were apparently still well ahead of last year. For instance, respondents' July figures placed sales 19% ahead of the year-before level. Correspondingly, sales volume for the first seven months of 1979 was pegged at 18% higher than the same period in 1978.

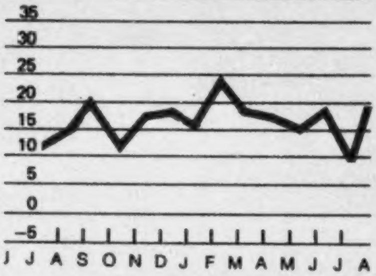
Even so, it is clear that poor economic performance through this year is likely to trim sales gains.

July's listing of the Commerce Dept.'s index of leading economic indicators gave a clear sign that any other short-term course is unlikely. The index dropped 0.4%, the third decline in four consecutive months.

As the economy slows down, concern about lagging receivables heats up, which brings up another problem area—interest rates.

When the prime rate hit 12¼% late in the summer, one of the most disturbing factors were widespread predictions in the financial and business communities that even that record level would soon be topped. And it was.▫

% changes in sales when compared with same month in previous year



Sales in July remained 19% higher than volume a year before, however.

SALES BY REGIONS (% change)

	July '79 vs. June '79			July '79 vs. July '78			7 mos. '79 vs. 7 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	−1	4	1	14	24	19	12	25	17
Connecticut	—	2	—	—	19	—	—	27	—
Massachusetts	−2	−6	−3	18	27	22	16	24	18
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−8	−10	−9	8	21	16	17	19	18
New York Metropolitan Area	16	15	15	—	22	—	19	23	21
Upstate New York	−10	−14	−12	8	23	18	4	18	13
Pennsylvania	−17	−18	−17	8	19	18	20	24	22
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.	2	−8	−3	26	21	23	14	19	16
Georgia-Florida	7	−11	−4	36	22	28	15	21	18
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−8	−14	−10	19	17	18	18	21	19
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	−6	—	—	17	—	—	15	—	—
Chicago	20	−14	−1	8	27	13	14	33	25
Michigan	−2	−10	−5	21	15	18	17	11	14
Ohio	−16	−6	−11	19	8	13	25	17	21
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	—	−2	—	—	17	—	—	−12	—
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	—	8	—	—	22	—	—	14	—
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	—	−4	—	—	—	—	—	14	—
Texas	—	−4	—	—	—	—	—	14	—
MOUNTAIN: N. M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−7	—	—	21	—	—	7	—	—
PACIFIC: Calif., Ore., Wash.	−7	−8	−7	31	16	25	33	25	29
L. A.-San Diego	−8	—	—	14	—	—	36	—	—
Oregon-Washington	−6	1	−4	34	12	27	32	25	29
U.S. TOTALS	−3	−5	−5	19	19	19	18	19	18

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Specialty Tools & Fasteners:
'State of the Industry'

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A Morgan-Grampian publication

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Indicators...

Purchases of industrial supplies increased nationally in August, following a short drop in July, according to the *NIDA-SIDA Industrial Distribution Index*. The index, compiled from the monthly sales figures of 100 distributors, was up 10.8 points (3.9%) from July and 43.8 points (18%) from the year-before level. The *NIDA-SIDA Inflation Index* in August was at 227.3, up 2.7% from July and 9% from the year-before level. (Both indexes are 1967=100.) Regional sales for August, comparing August to month-before and year-before levels, were: east, down 1% and up 16%; midwest, up 3.2% and 12.1%; west, up 7.5% and 22.7%; south, up 5.3% and 28.4%...The *ASMMA New Order Index* dropped 0.1 points (0.03%) in August. It was 15.4% above the year-before level...The *FRB Index of Production Manufactures* dropped 2.9 in August, to 144.4...The *SIDA Monthly Sales Trend Report* showed an 8.1% increase in August, with a 13.7% increase over year-before sales. The biggest increase for both periods came in area I (N.C., Va., W.Va.), up 15.5% and 12.2%; area II (Fla., Ga., S.C., P.R.) had the least growth in August, 2.8%...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors was at 225.0 in August, up 7.6% from July's 209.2...the *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was at 204.7 in August, up 11.7 points (6.1%) from July...The Los Angeles Industrial Distributors Assn. reports that member sales were up 38% in August and 37% in July from year-before levels, with average collection days of 40 and 41, respectively...August machine tool orders and shipments rose substantially, according to the National Machine Tool Builders Assn. Net new orders were at $429.2 million, up 19% from July. Shipments were valued at $290.6 million, up 9%...New factory orders bounced back by 2% in August, following declines of 1.6% in July and 0.9% in June. That seasonally adjusted upturn was encouraging, the Commerce Dept. said, but it fails to show a mild recession is not underway...New car sales fell 2.8% in September compared to year-before levels. □

August sales show a health increase

August brought a strong sales push, according to *Regional Report* respondents, with volume 9% higher for general liners and 16% higher specialists than in July.

The sales gain was impressive, given what was happening elsewhere in the economy and, indeed, respondents' performance during June and July, when overall declines were listed.

Even so, on closer inspection, the *Regional Report* figures fall into line with other economic indicators.

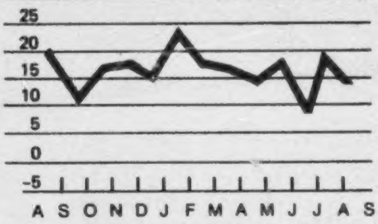
For instance, after slipping a revised 0.2% in July, and 0.3% in June, the Commerce Dept's index of leading economic indicators remained unchanged in August—showing, at the least, that the economy had not worsened and should remain stable.

The *New Order Index* of the American Supply & Machinery Manufacturers Assn., whose members sell through industrial distributors, had slipped in three of the preceding five months before leveling off in August, at a point nearly six points off its January listing.

Some other less-cheering indicators were reported for August. For instance, the layoff rate among manufacturing workers jumped 0.5% during that period—the largest monthly increase since the recession period of October-November 1974.

Yet another sign of approaching industrial slowdown: Industrial output in August fell 1.1%, according to government analysts, largely because of problems in the automotive sector. □

% changes in sales when compared with same month in previous year



August sales: Still a comfortable 14% above the year-before level.

SALES BY REGIONS (% change)

	Aug. '79 vs. July '79			Aug. '79 vs. Aug. '78			8 mos. '79 vs. 8 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	17	26	21	7	28	13	13	27	19
Connecticut	18	28	23	9	—	—	21	36	19
Massachusetts	14	25	18	3	28	13	4	25	12
MIDDLE ATLANTIC: N.Y., N.J., Pa.	1	18	7	15	20	17	15	25	18
New York Metropolitan Area	−13	23	8	27	20	22	25	21	22
Upstate New York	4	4	4	9	—	—	6	38	16
Pennsylvania	7	—	—	12	—	—	15	—	—
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.	15	7	10	37	13	24	17	18	17
Georgia-Florida	—	6	—	—	18	—	—	21	—
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	7	13	11	13	15	14	5	21	14
Indiana	—	4	—	—	27	—	—	28	—
Wisconsin	35	33	34	21	27	24	17	23	20
Chicago	—	2	—	29	13	19	13	30	23
Michigan	−16	7	−4	1	1	1	15	10	
Ohio	11	—	—	9	—	—	19	—	—
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	—	—	—	—	—	—	—	—	—
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	—	—	—	—	—	—	—	—	—
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	11	1	8	10	−9	5	15	11	14
Texas	20	1	12	12	−9	1	19	11	16
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	3	37	17	29	—	—	22	4	15
PACIFIC: Calif., Ore., Wash.	9	24	17	12	15	14	34	20	26
L.A.-San Diego	10	22	14	7	13	10	38	15	26
Oregon-Washington	8	25	17	14	16	15	32	24	28
U.S. TOTALS	9	16	135	14	15	14	17	12	19

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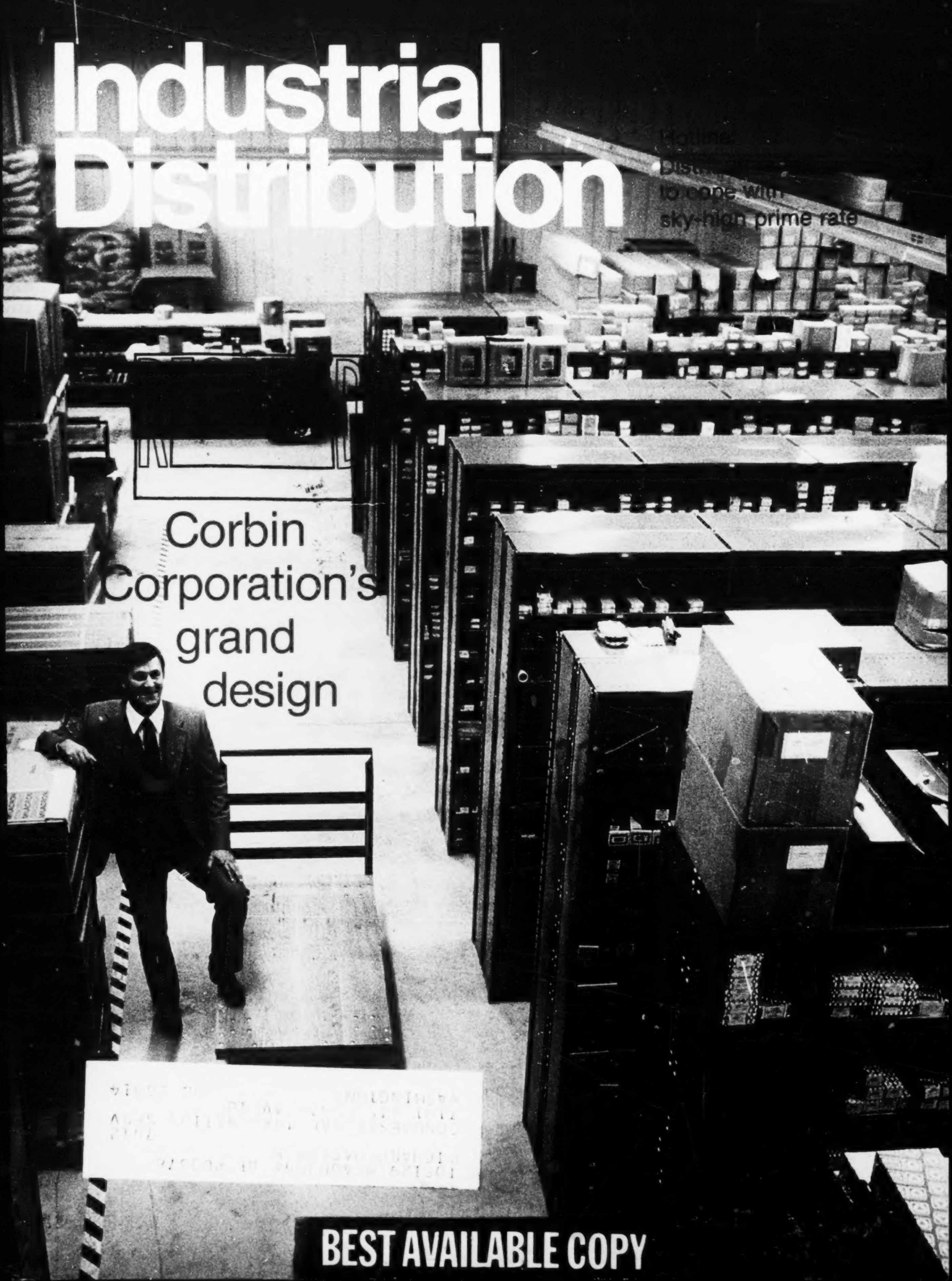

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Corbin Corporation's grand design

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Indicators...

Purchases of industrial supplies declined in every region in September, according to the *NIDA-SIDA Industrial Distribution Index*. The index, compiled from the monthly MRO sales figures of 100 distributors, stood at 276.1 in September, down 11 points (3.8%) from August. That level was 22.4 points (8.8%) above that of September 1978. The *NIDA-SIDA Inflation Index*, based on the sales prices of 10 products, was at 229.1 in September, up 1.8 points (0.8%) from August and 21.3 points (10.3%) from the year-before level. (Both indexes are 1967=100.) Regional sales, comparing September to month-before and year-before levels, were: east, 226.6, down 5.7% and up 5.9%; midwest, 260.8, down 4.5% and up 0.15%; west, down 2.7% and up 19.1%; south, down 2.5% and up 25%. . .The September *ASMMA New Order Index* was down 1.8 points (0.7%), standing at 258.4. The two-month, moving average was 25.7 points (11%) over the year-before level. . .The *FRB Index of Production Manufactures* was at 145.5 in September, up 1.4 points. . .The *SIDA Monthly Sales Trend Report* for September declined 5.4%, with a 1.4% increase over September 1978 sales. Area I (N.C., Va., W. Va.) had the largest drop, 14.5%; area IV's (Ark., La., Okla., Tex.) was least, 3.4%. . . The National Welding Supply Assn.'s *Welding Supply Index* was at 136.9 in September, up 1.3 points from August and 15.9% from the year-before level. . .Demand for aluminum dropped sharply in September, down 20.3 points (9%) from August and 6.2 points (2.9%) from September 1978, according to the National Assn. of Aluminum Distributors' *Quick Pulse Index*. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was down 10.2 points from August's 204.7 reading, but up 15.4 points (8.6%) over September 1978. . .The nation's industrial output rose by 0.5% in September, following August's decline of 0.9%, according to the Federal Reserve Board. . .New orders for durable goods rose a surprising 5.9% in September, the largest monthly gain recorded in a year, according to an analysis of the Commerce Dept.□

September sales hit by an 8% decline

September sales dropped by nearly 10%, according to *Regional Report* respondents.

August sales had increased an overall 13%, but September's dropped 8% in comparison to the previous month's.

The drop does seem to be consistent with softness found in other indexes reflecting distributor sales in September (see *Indicators*, page 20), although economywide indicators for the month remained strong.

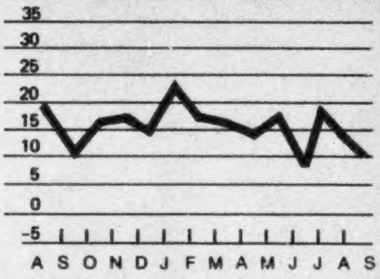
New factory orders, for example, jumped ahead by a surprising 3.9% on a seasonally adjusted basis, according to the Commerce Dept. However, Commerce analysts warned that the economy's robust performance, using orders as an indicator, does not mean they do not still expect a recession.

Strength in new orders was attributed to defense, steel and aerospace spending.

Also on the upturn in September were durable goods orders, by 5.9%. As with factory orders, it was the steepest monthly increase in a year. Primary metals and transportation-equipment orders were said to be powering the rise.

It was generally conceded that this sort of growth was unlikely to continue through the fourth quarter, however. For one thing, the cost of borrowing is simply too high.□

% changes in sales when compared with same month in previous year



Monthly sales rose 10% higher than a year before, but so did inflation ...

SALES BY REGIONS (% change)

	Sept. '79 vs. Aug. '79			Sept. '79 vs. Sept. '78			9 mos. '79 vs. 9 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	6	−14	−4	15	18	16	14	21	18
Connecticut	−10	−9	−9	6	15	11	16	24	20
Massachusetts	31	24	27	22	17	20	15	20	17
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−22	−10	−16	12	7	9	17	15	16
New York Metropolitan Area	−12	−8	−10	−7	9	1	—	20	—
Upstate New York	−2	−1	−2	16	7	11	18	11	14
Pennsylvania	−11	−37	−24	16	5	11	17	22	20
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.	−11	−9	−10	40	22	31	40	18	29
Georgia-Florida	−4	−7	−6	8	29	18	15	21	18
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−16	−3	−9	2	1	1	1	22	11
Indiana	−16	6	−5	−2	6	2	23	31	27
Wisconsin	−33	1	18	14	14	14	17	40	28
Chicago	−27	2	−16	3	40	21	13	31	22
Michigan	−16	−13	−14	−5	22	9	15	9	12
Ohio	−7	−10	−8	4	8	6	−7	16	5
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−1	3	1	17	−24	−4	22	−6	8
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	28	−19	5	−1	−1	−1	40	5	22
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−1	−8	−5	22	14	18	8	16	12
Texas	—	−16	—	—	36	—	—	22	—
MOUNTAIN: N. M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−27	−17	−22	1	9	5	40	17	28
PACIFIC: Calif., Ore., Wash.	−5	−19	−12	9	14	11	14	20	17
L. A.-San Diego	−12	−26	−17	−4	19	8	32	15	23
Oregon-Washington	−6	−13	−10	11	14	13	21	22	21
U.S. TOTALS	−8	−8	−8	9	12	10	19	18	18

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New *ID* poll finds receivables' level holds steady

NEW YORK—Distributors appear to be holding the line on receivables, according to a new survey by ***ID***.

The findings, supplied below, were compiled from figures submitted by *Regional Report* respondents. Figures listed are for average days outstanding, by region. Exceptionally high or low figures have been deleted to ensure that overall averages remain realistic.

A rundown on receivables will be published monthly. It will appear on the *Regional Report* page hereafter. □

	October '79		October '78	
	Gen.	Spec.	Gen.	Spec.
New England	39.6	44.7	43.6	49.1
Middle Atlantic	40.2	42.8	40.7	42.2
South Atlantic	38.2	37.3	38.7	39.0
East North Central	37.1	41.0	38.0	40.0
East South Central	34.5	41.7	40.5	39.8
West North Central	41.0	38.5	39.0	36.0
West South Central	39.6	41.0	39.6	38.5
Mountain	38.2	41.1	39.7	39.2
Pacific	33.5	43.7	36.4	43.2
U.S. average	38.0	41.3	39.5	40.7

Key to regional breakdowns by state, page 43.

Indicators...

Purchases of industrial supplies nationally dropped slightly in October, according to the *NIDA-SIDA Industrial Distribution Index.* The October reading was 274.8, down 1.3 points (0.47%) from the month before. The index was 24.2 points (9.7%) above the year-before level. The *NIDA-SIDA Inflation Index* in October was at 231.1, up 0.96% from September and 10.1% from the year-before level. (Both indexes are 1967 = 100.) Regional sales for October, comparing October to month-before and year-before levels, were: east, up 2.7% and 7.2%; midwest, down 0.35% and up 1.2%; west, up 0.8% and 21.3%; south, down 1.9% and up 22.1%...The *ASMMA New Order Index* was up 3.8 points (1.5%) in October. It was 10.9 points (4.3%) over the year-before level...The *FRB Index of Production Manufactures* stood at 145.5 in October, down 0.3 points from September...The *SIDA Monthly Sales Trend Report* for October showed an overall increase of 17.7% over September, with a 20.2% boost over year-before sales. Area II (Fla., Ga., S.C., P.R.) led in both periods, 22.2% and 32.2%, respectively...The National Welding Supply Assn.'s *Welding Supply Index* hit a record level of 147.7 in October, up 10.8 points (7.9%)...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. stood at 207.4 in October, up 12.9 points (6.6%) from September...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors was at 221.1 in October, up 16.4 points (8%) from September...Machine tool orders, shipments and backlogs all increased during October, according to the National Machine Tool Builders Assn. Foreign and domestic orders increased 3%; shipments were up 8%; backlogs were up 4%...U.S. business plans to increase capital spending by 9.5% this year, according to McGraw-Hill Publications Co. In total, the projected capital spending is for $196 billion. However, McGraw-Hill said that inflationary price increases will negate the rise...The Commerce Dept.'s index of 12 leading indicators fell 0.9% in October.□

October brought strong sales gains

Sales of industrial supplies remained strong in October, according to *Regional Report* respondents, despite a decline posted earlier for September.

Overall, sales were up 15% compared to the previous month and to October 1978, indicating that distributors had yet to taste recession.

October's economywide indicators pointed down, for the most part.

The Commerce Dept.'s index of leading economic indicators fell 0.9%, a move Government analysts said confirms predictions that the expected downturn had indeed started.

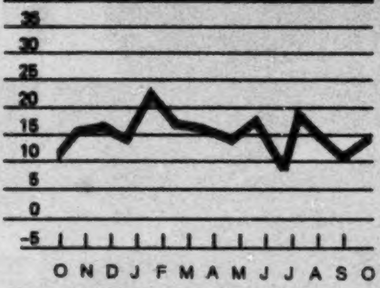
Another omen: New factory orders also dropped, by 0.4%, following a 3.1% rise in September and a 1.9% increase in August. The Commerce Dept. said the drop was partly due to decreased defense spending, although a 2% decline in durable-goods manufacturing was also listed.

There were some hopeful signs remaining during the month. For one thing, machine tool orders climbed to record levels for the second consecutive month, up 14% for domestic orders and 33% for exports when compared to October 1978 levels.

For another, industrial output climbed 0.1% over September, which registered a 0.5% increase.

Overall, analysts avoided unequivocal statements about the near-term future of the economy, in large part because of widespread uncertainty about an economic wild card—the Middle East. □

% changes in sales when compared with same month in previous year



Another peak: Month's sales remained 15% above the level reached in October 1978.

SALES BY REGIONS (% change)

	Oct. '79 vs. Sept. '79			Oct. '79 vs. Oct.'78			10 mos. '79 vs. 10 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass. N.H., Vt., Me.	23	12	19	21	19	21	17	21	19
Connecticut	31	9	18	30	12	21	18	21	19
Massachusetts	25	30	27	25	33	27	27	25	26
MIDDLE ATLANTIC: N.Y., N.J., Pa.	5	21	15	9	15	12	11	16	13
New York Metropolitan Area	24	17	20	8	12	11	11	19	15
Upstate New York	23	18	21	7	2	4	5	10	7
Pennsylvania	−10	21	5	11	23	17	15	29	21
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.	20	16	18	2	24	14	21	19	20
Georgia-Florida	16	13	14	37	26	31	17	21	19
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	12	1	5	9	−1	4	39	19	30
Indiana	29	−10	−4	28	6	10	23	7	10
Wisconsin	7	−1	4	20	13	18	15	14	15
Chicago	10	6	5	−4	40	27	12	34	29
Michigan	14	—	—	2	—	—	40	—	—
Ohio	13	21	17	10	19	14	17	15	16
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	21	13	−7	14	15	15	14	−6	4
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	2	10	8	8	14	13	18	17	17
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	19	30	23	27	5	11	18	16	17
Texas	—	—	—	—	—	—	—	—	—
MOUNTAIN: N. M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	18	-6	10	8	11	9	14	22	17
PACIFIC: Calif., Ore., Wash.	22	24	23	17	14	16	23	12	19
L. A.-San Diego	20	25	22	7	11	8	29	15	22
Oregon-Washington	22	20	21	18	19	19	23	18	21
U.S. TOTALS	17	14	15	14	16	15	19	17	18

The mass-migration theory of a huge exodus of northern industry southward is nothing less than a well-publicized myth. To be sure, northern manufacturers and distributors have opened branches, subsidiaries and, in some cases, whole operations in the South to take advantage of its massive diversified growth. It has become a mature market in its own right. The land of cotton, milk and honey has now become the land of electrical and non-electrical machinery, transportation, rubber and plastics and more. Magnolias have given way to oil rigs, cotton fields to computer assembly plants, and lazy afternoon fishing holes to bustling ports. Diversified industry has become the grits and pecan pie of the South and, frankly, manufacturers everywhere want a slice.

"But big migration is a myth," proclaims Lynn Browne, assistant vice president, the Federal Reserve Bank of Boston. "I don't see a monolith," agrees Bruce Yandle, chairman of the economics department at Clemson University, S.C. (an ex-bearings distributor). "Everyone sees a mass exodus. I don't. The Northeast, Mideast and the Great Lakes have all lost small amounts of industry, but their original share is so large that when it shows up in another region, it stands out."

"There is no radical, absolute pulling up of stakes and replanting them in the South by northern companies," emphasizes Bruce Williams, vice president and economist with the First National Bank of Atlanta. "There is expansion outside of traditional industrial areas. But not at the accelerated pace some people think. The migration myth has been quite overblown."

There was definitely a physical migration southward of New England textile firms, starting in the 1920's. These companies moved South to take advantage of cheaper labor costs, better climate, less unionization, and closer proximity to the resources they need to produce goods. It was a move for survival, not to capture new markets.

Now, producers all over the U.S. are recognizing the South as a necessary place to *expand* their operations, since so much of the American population has settled there in recent years. They are not abandoning the North. They are accepting the emergence of the South as a viable market area, one that has gotten its share of new and established businesses.

"Northern companies are branching out," observes Williams. "The South is growing fast industrially. It's a logical spot to branch to, since the population and work force there are growing."

Births and deaths

Carol L. Jusenius and Larry C. Ledebur, both noted specialists in regional research, stress that a massive fleeing of industry from North to South is not a reality. In their work *Documenting the 'Decline' of the North*, done for the Dept. of Commerce's Economic Development Administration, Jusenius and Ledebur indicate that the main reason for a decline in the North in recent years was not that so many firms *migrated* out, but that more firms *closed* than were formed. "Compared to the South, the region was not generating enough new firms to offset the rather large number that closed." The study revealed that, in a healthy economy, deaths of firms are neatly replaced by the births of new ones. Yet, between 1969-1974, births in the North accounted for only 61.4% of the business deaths there. Births of new businesses in the South replaced 91% of those that folded.

Jusenius' research showed that with inmigration (some firms do move North), the net loss due to migration in the North between 1969-1974 was only 0.4% of the total firm loss.

"Northern cities are not losing jobs faster than the southern ones, nor are cities losing jobs particularly faster than suburbs," concludes David L. Birch, of the Massachusetts Institute of Technology's *Program on Neighborhoods and Regional Change*. "It appears to be management skill rather than location that determines job loss."

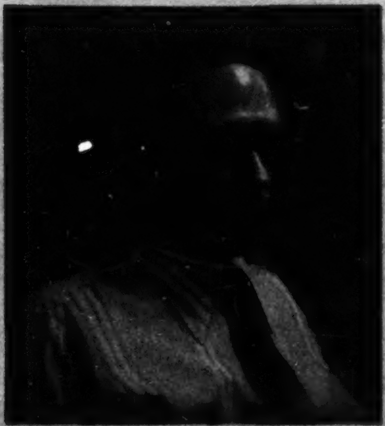
"Failures of firms don't vary much by area," agrees Allan L. Olson, economist with the Office of Economic Research of the Dept. of Commerce. "But there are more firm formations in growing areas, and fewer in older areas."

Close to the source

There has always been a movement among companies to get nearer to resources, mainly for production and transport purposes. Forrest I. Rettgers, executive vice president with the National Assn. of Manufacturers (NAM), points out that when "raw materials change through technology, outlets and people change. There are constant shifts." For example the aircraft industry started out strong in the North. But California offers more open space for testing and better all-year flying weather.

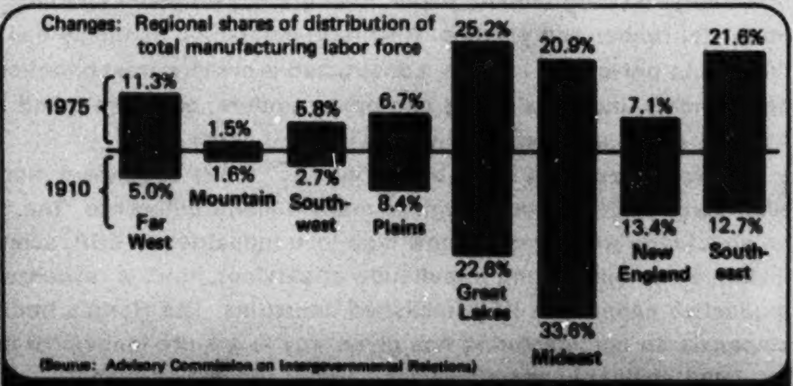
The National Aeronautics and Space Administration moved its headquarters from Langley Field, Va., to Houston. Military storage in North Cumberland, Pa., moved to Texas to take advantage of the climate.

Not much steel has moved southward, although Birmingham is an established steel center. Lone Star Steel in Texas was built by the Government in a diversification effort in case the U.S. got bombed during a war. The Government sold it to private industry. Bristol Steel,



'Some states started from a very small base.'—*Friedenberg*

Changes: Regional shares of distribution of total manufacturing labor force



(Source: Advisory Commission on Intergovernmental Relations)

A taxing situation...

One way Southern municipalities have attracted industry from other parts of the U.S., from abroad, and from within, has been an easier, incentive-oriented tax structure. Conversely, one way many northern and midwestern cities have lost industry, or inhibited new industry, has been through higher taxes, necessary to support social programs and extensive mass transit and road systems.

In the last few years, northern cities and municipalities have matched the South in their tenacity in attracting, keeping and developing businesses. Since New York State reduced taxes, it has enjoyed a rennaissance of new businesses. Still, some states don't believe in tax incentives or waivers. Virginia, for one, doesn't grant new companies any favors it doesn't offer existing companies. Other states offer low-cost loans to help companies comply with pollution control standards through development agencies.

"Tax breaks are a factor, but recent studies show that they're not a big deal," offers Bruce Williams of the First National Bank of Atlanta.

Williams points out that personal taxes are perhaps more of a concern to a company than corporate taxes. Cost of living and housing cost differentials can make the difference for one area over another. Housing and taxes make up 90% of the difference in cost of living factors between regions. New York, for example, has an 8% sales tax. Atlanta has a 4% tax. Property taxes run the same course. "The personal tax burden makes it much cheaper to open a business in the South," says Williams.

"You have to weigh the relationships of taxes to the other costs involved in running a business," says Will Myers of the Advisory Commission on Intergovernmental Relations. "If you could find the cost of labor lower, that would overwhelm tax considerations."

Clemson's Bruce Yandle agrees that taxes are a relatively minor factor in any company start-up or relocation. "You can't forgive too many taxes or the services you need won't be there anymore."

State and local taxes as a percentage of per-capita personal income comes to 13% in the Northeast; 12.2% in the North Central; 10% in the South, and 12.4% in the West.

Roger W. Schmenner of the Harvard-MIT Joint Center for Urban Studies claims that "wooing industry, especially through urban tax and financial incentives to large employers, is likely to be unproductive." He feels that a better policy would be one of "tending your own garden." This would entail, in his opinion, facilitating on-site expansion of existing companies; helping small, growing plants to find new or additional space within the city limits or nearby; promoting the city or area's advantages as an initial location.

"Small companies are the ones that really need the tax breaks," says Myers, "but they don't have the in-house legal expert that the bigger ones have. They don't know how to get the tax breaks."

Bristol, W. Va., is close to vast coal and iron ore resources. But Bethlehem Steel will always stay close to Cornwall, Pa., site of the biggest iron ore open pit in the country.

"It's not just a move to the South," Rettgers argues, "but an entire set of factors that makes one region of the country more favorable to industry and helps it compete with more success in U.S. and world markets."

There's no doubt that many companies, especially new ones, are starting operations in the Sunbelt. New firms are the key, although existing industry is still vital. John S. Hekman, assistant professor of economics at Boston College, stresses that it's not so critical for regions like the North to keep old industries at home as it is to replace that industry with new entrants.

In a recent *New York Times* article, Hekman contended: "The biggest mistake northern states can make would be to establish a policy of subsidies and restrictions designed to retain old industries. This would reduce productivity not only of the Northeast but of the whole country."

"You can't try to be what you used to be. You have to look ahead," echoes Yandle. "The rate of job loss is practically the same in all areas," stresses Birch. "Encourage job replacement."

The many faces of Dixie

To attract any kind of attention at all from old or new industries, the South has had to change. It has shucked its heavy reliance on agriculture, and is gradually pushing traditional staples like furniture, tobacco and textiles into supporting, not starring, roles.

Since 1970, about three-fourths of the growth of industrial employment in the South has been in high-wage manufacturing industries, according to the Southern Growth Policies Board. Only 25% of the growth since 1970 was in lower-wage manufacturing (apparel, textiles, furniture, wood and lumber and leather).

The more recent growth in the South has come from electrical machinery, primary metals, paper, chemicals and petroleum and coal production. These industries accounted for 42% (171,000) of all new southern manufacturing jobs between March 1970 and March 1976.

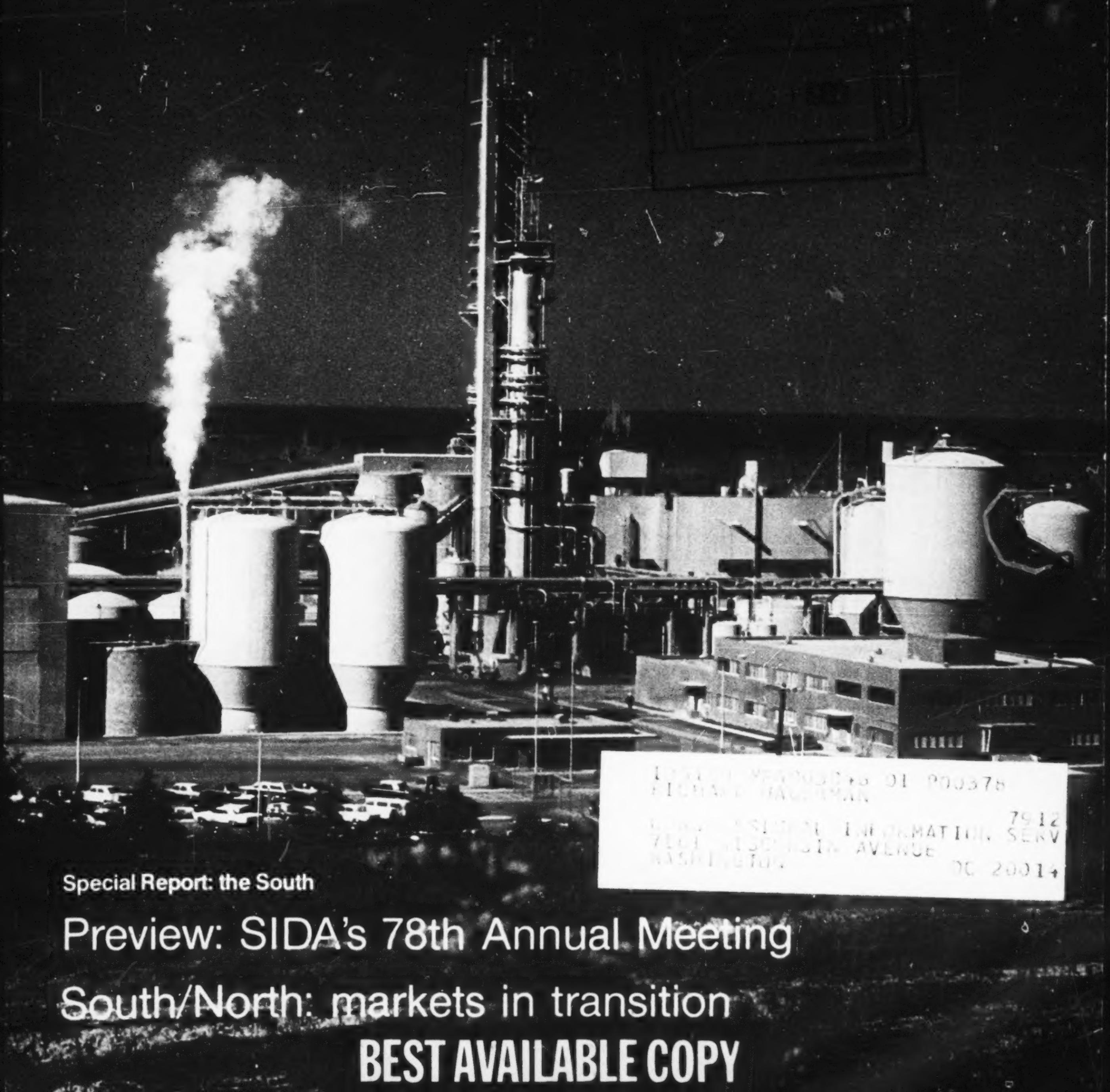
The middle-range wage scale industries—fabricated metals, rubber and plastics, printing and publishing, and electrical equipment (125,000 jobs)—accounted for 32% of all new jobs in this period.

The leading individual growth sector in the South has been non-electrical machinery (100,000 jobs in the six-year period). This includes farm and construction machinery, office and computing machines, cooling and heating equipment. These industries are especially strong in Texas, Oklahoma, Kentucky, Virginia and West Virginia. Rubber and plastic products are strong in every state except Mississippi and Louisiana. Transportation equipment is taking off, after a sluggish period, in Tennessee, Virginia and Arkansas. Textiles, lumber and raw wood, on the other hand, have experienced sluggish employment and growth.

'The South has the manpower to attract industry.'—*Rolley*

Clemson's Yandle points to the well-defined Piedmont Crescent, extending from the foothills of the Appalachian Mountains to northern Alabama, Atlanta, through South Carolina, North Carolina and on up to Danville, Va., as being a "red-hot" highly concentrated industrial region. "It's one of the largest concentrations of manufacturing as per cent of population in the U.S. A very high percentage of the workforce there is employed in manufacturing."

"All types of industry has come to the South now since the region has many large population centers," says the Fed-



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Special Report: the South

Preview: SIDA's 78th Annual Meeting

South/North: markets in transition

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South/North: Markets in transition

Throw away the image of a languid South specializing in cotton, textiles, tobacco and furniture—light years behind the rest of the country. The catchwords in today's modernized South are electrical and non-electrical machinery, primary metals, paper, chemicals, petroleum and coal, transportation products, rubber and plastics. A vibrant, diversified economy has narrowed the gap in per-capita income, constructed a modern transportation network, new schools, industrial parks and urban centers, attracted brand new industry. And not at the expense of the industrialized North.

The North has seen some of its "muscle" move southward, but contrary to what many believe, not enough to make a major difference. The North is doing an about-face with dynamic new high-tech industries in EDP, scientific instruments, finance and a multitude of services PLUS a revitalization of productive capacity in its established industries. The North's traditional emphasis on manufacturing has given way to a more innovative mix, better insulated against economic cycles.

North or South—the opportunities for industry and for its multitudinous services, distribution included, have never been as good or better.

By Senior Editors Ron Kolgraf and Gregory W. Miller

eral Reserve Bank of Boston's Browne. She warns against equating the current South with the South of the 50's or 60's. "The South traditionally had a developing country economy," indicates David Rolley, economist with the U.S. Chamber of Commerce. "Its main industries were light industries, with Third World-type exports after agriculture of light manufacturing, textiles and furniture. With the South's growth in personal income, there has been diversification into higher products." The South now has the manpower, and can offer an increasingly skilled labor force to employers.

The high-tech North

The recession of 1974-1975 hurt the Northeast more than any other part of the country. This is an area where much of the nation's oldest cities and industries and manufacturing are located. Energy costs are high, transportation and other public services, sewer systems for example, in varying states of decay, and weather harsh part of the year.

However, the region, especially New England, has recovered well, albeit slowly, thanks to a very gradual change in the nature of its industries. It is now having a resurgence, led by new firms, notably in the high technology fields such as electronics and EDP (computers). Area brainpower centers like MIT, Harvard, Dartmouth, Brown, etc., are producing a more innovative, aggressive, learned generation of entrepreneurial and middle-management talent who found or run companies keyed into today's technologies and markets. Further, the region, entrenched in a tradition of fine craftsmanship, work ethic and education, offers a well-above-normal grade of labor. "And the South is not about to pirate them away," claims Browne.

The nature of industry in New England has revitalized the area. "There is an extremely high proportion of new jobs in the area because of the computer relationship," admits Williams. "It's tough to put a computer manufacturer in the middle of Mississippi or Alabama because the talent in large numbers isn't there, and is probably not recruitable." (Although Albert Niemi, professor and director of the Office of Economic Research at Georgia University, Athens, Ga., indicates that IBM will found a large new facility in Athens that will employ 5000 people over the next few years.)

'An urban state will have more problems than a rural one.'—*Janisch*

Towns in rural New Hampshire are benefiting from the influx of high tech industries. Just over the Massachusetts-New Hampshire border can be found a host of sprawling corporate and assembly enterprises in EDP and other industries, refugees from higher taxes in Massachusetts. Nashua, N.H., an ex-mill town, is now home for a number of such large corporate arms.

Connecticut is also doing well, mainly as the result of a number of long-term Defense Dept. contracts. Many industrial distributors are taking advantage of this opportunity. The *Wall Street Journal* points out that Burlington, Vt., is doing well, not just with a bustling ski industry, but with a new Digital Equipment Corp. plant for one. Only Rhode Island seems to be in a holding pattern, with construction down and so-so industrial growth.

Many localities in the North are trying to fight back against the South, offering the same kind of tax incentives for companies staying or relocating there that the South traditionally has designed to attract industry. There is talk of loosening some environmental standards, waiving or deferring some taxes, and offering cheaper land for relocation—all strategies successfully employed by the southern states in the past. Municipal industrial development bonds provide relatively low interest loan financing for corporate operations. Bonds are guaranteed by cities or counties, according to the U.S. Chamber of Commerce, making it easier for manufacturers to float the bonds.

The biggest problem many northern locations have is getting the capital to make improvements in roads, sewers, etc., without taxing corporations right out of the state. Contrary to popular belief, wages in the Northeast are low, second only to those in the South Atlan-

'Super-growth' communities in the South, 1970-76...

Florida
Fort Myers/Fort Pierce
Fort Lauderdale
Sarasota
Tampa-St. Petersburg
Lakeland-Winter Haven
Orlando
Daytona Beach
Gainesville
Jacksonville
Tallahassee
Panama City
Pensacola
Palm Beach

South Carolina
Greenville-Spartanburg
Anderson
Columbia
Charleston
Myrtle Beach

North Carolina
Charlotte
Winston-Salem
Greensboro
Chapel Hill
Raleigh-Durham
Fayetteville
Wilmington

Kentucky
Hopkinsville
Lexington
Pikeville

Virginia
Blacksburg
Charlottesville
Norfolk-Portsmouth-
Virginia Beach

Texas
Brownsville
McAllen-Brownsville
Corpus Christi
Austin
Killeen-Temple
El Paso
Lubbock
Tyler
Bryan-College Station
San Antonio

Oklahoma
Norman

Arkansas
Little Rock
Fayetteville

Louisiana
Baton Rouge
Monroe
Shreveport
Lafayette

Mississippi
Pascagoula-Moss Point
Biloxi-Gulfport
Jackson
Memphis (suburbs)

Alabama
Mobile
Dothan
Montgomery
Anniston
Birmingham

Tennessee
Memphis
Nashville
Knoxville
Clarksville

And how their states are projected to grow: 1980-2000.

10.1% (Ala.)
29.1% (Ark.)
47.2% (Fla.)
15.8% (Ky.)
17.0% (La.)
11.8% (Miss.)
24.8% (N.C.)
18.9% (Okla.)
17.1% (S.C.)
20.5% (Tenn.)
32.6% (Texas)
25.1% (Va.)

(Sources: Communities, Stephens Associates, Raleigh, N.C.; projections, Bureau of Economic Analysis) tic states. The highest wages paid are in Ohio and Illinois. Wages in New England are now 91.2% of the national average, according to Chase Econometrics Associates, Inc.

The real key to growth in a region, according to the experts, is new companies. Tax breaks only go so far. Boston College's Hekman contends that regions don't grow old, products do. "Mature, large scale production...stresses mechanization and low-skill rather than high-skill labor. Mature industries look for locations that have low labor costs and ready access to markets."

New companies then are the keys to a region's development. California claims the largest number of new companies each year, followed by Massachusetts. The South is gaining its share of new companies too. "If a company is new and or expanding, there is a good chance that it will grow up outside the traditional Northeast and North industrial heartland and go into the open spaces of the South," says Bruce Williams of the First National Bank of Atlanta.

Roger W. Schmenner of the Harvard Business School and the Harvard-MIT Joint Center for Urban Studies, in an analysis funded by the Office of Economic Research for the Commerce Dept., hits on what seems to be the trend in the U.S. market today: a convergence of regions and markets.

"As time and technology have moved forward, the country's regions have become increasingly homogeneous in the sense that New England and the Midwest are relatively less dependent on manufacturing jobs than they used to be. And the South and West are now much more dependent on manufacturing than they used to be. The industrial base is becoming more and more diverse."

The new image can be seen in a great narrowing of the per capita income gap in the nation and the amount of Federal expenditures by state, notably Federal expenditures in regions compared to Federal revenue received from regions. "Poorer regions" have paid an increasing amount of tax money to the Fed as income gaps have narrowed, according to the Advisory Commission on Intergovernmental Relations in Washington. In her study *The Frostbelt and Sunbelt: Convergence Over Time,* Janet Rothenberg Pack notes that the historically richer regions of the Mideast, Far West, New England and Great Lakes are relatively less rich now. The historically poorer regions, the Southeast, the Plains States, and the Mountain States, are relatively less poor now. In 1979, the highest per capita income in the U.S.—in the Far West—was only 11% above the U.S. average. The lowest per capita income—in the Southeast—was only 14% below (that gap is now probably narrower with cost of living adjustments made). According to Commerce Dept. figures, in 1963, that range extended from a low per capita income of 76% to a high of 117%. In 1923, the low was 53%, the high was 137%.

- Per capita income in the Northeast is $7900 (1% above the national avg.)
- Per capita income in the Great Lakes is $8224 (5% above the national avg.)
- Per capita income in the Mideast is $8230 (5% above the national avg.)
- Per capita income in the Southeast is $6773 (14% below the national avg.)
- Per capita income in the Far West is $8812 (12% above the national avg.)

The trend is toward a national norm.

Manufacturing

According to ACIR's Rothenberg study, manufacturing has dispersed throughout the entire country, after having been the nearly exclusive domain of the seemingly top-heavy North for so long. In 1910, 70% of the manufacturing employment in the U.S. was in the Northeast, the Mideast, and the Great Lakes. The Southeast accounted for 12.7% of the manufacturing total. Sixty years later, the Southeast nearly doubled its share of the total. In 1975, the Southeast accounted for a far healthier 21.6%. The latest industries to pace southern manufacturing growth include metal working, general industrial bearings, office and computing machinery, refrigeration, engine parts, says Evan Brunson, Southern Growth Policies Board.

Clemson's Yandle uses figures from a major sales and marketing publication to track the growth in southern manufacturing. Based on share of manufacturers' value of shipments, the Northeast's share in 1974 was 6.4%. In 1979, it was 5.9%. The Midwest's share was 22% in 1974, and 18% in 1979. The Great Lakes region lost 1% of its share.

On the other hand, the Southeast, with 16.9% in 1974, increased to 20.7% in 1979. The Far West edged up from 9.6% in 1974 to 9.7% in 1979.

The South: population growth projections, 1980-2000 (in millions)

	1980	1990	2000	total increase
U.S. (total)	226.859	248.213	265.078	16.8%
Alabama	3.759	3.948	4.140	10.1%
Arkansas	2.300	2.707	2.970	29.1%
Florida	10.225	12.904	15.049	47.2%
Georgia	5.429	6.189	7.053	29.9%
Kentucky	3.647	3.977	4.224	15.8%
Louisiana	3.983	4.316	4.659	17.0%
Maryland	4.405	5.007	5.583	26.7%
Mississippi	2.451	2.595	2.740	11.8%
North Carolina	5.946	6.731	7.419	24.8%
Oklahoma	2.857	3.124	3.396	18.9%
South Carolina	3.160	3.459	3.700	17.1%
Tennessee	4.625	5.183	5.573	20.5%
Texas	13.627	16.002	18.069	32.6%
Virginia	5.400	6.041	6.755	25.1%
West Virginia	1.950	2.006	2.003	2.7%
Selected Northern states				
Massachusetts	5.970	6.338	6.614	10.8%
New York	18.264	18.811	18.922	3.6%
Illinois	11.582	12.000	12.358	6.7%

(Source: Bureau of Economic Analysis)

- Projections for growth in 11 of the 15 Southern states are greater than the national average. Why? Analysts point to one overwhelming reason—that's where the most economic development is expected to come in the next 20 years.
- Although the South as a whole is gaining population at a fast rate, the increases are uneven. West Virginia, for example, looks forward to less than 3% growth on a base of fewer than 2 million. Florida, on the other hand, is expected to continue its population boom, with an accompanying boost in industrial strength.
- The Northern states are less likely to show significant increases for another reason: their already large populations. For example, Massachusetts is expected to gain 644,000 residents by 2000, while Arkansas' forecast is for an additional 670,000. However, because of their differing population bases, Arkansas' percentage increase is 29.1, while Massachusetts' is only 10.8.

[continued on page 60]

[continued from page 57]

To be sure, the appeal of the South and the Sunbelt to people and to industry continues. The climate remains an advantage, with less downtime and absenteeism than the North, in winter.

Labor is more organized in the North than in the South, making the South more inviting for some businesses. The South is being unionized gradually, but it will be some time before it catches up to the North.

On the other hand, counters Williams, the South is hardly a region of sweatshops with its masses living on the edges of poverty. Compensation in many areas competes favorably with compensation in the North. Atlanta-based Delta Airlines, for one, not only compensates its employees on a par with airlines in the North but enjoys an enviable reputation for efficiency and productivity.

Another advantage the South claims over the North is its energy. New England is at the end of the pipeline so fuel costs are high. Sky-high gasoline costs in the North are also a factor to consider in mass transportation of goods. "The South has plentiful and cheaper energy sources and supplies," says NAM's Rettgers. He also points to the fact that the Government regulates interstate, not intrastate, gasoline supplies. Therefore, due to allocation systems by state, some states have more gasoline available for trucks than others. "I predict you'll see more companies moving closer to shale oil sources with the energy rises and the current nuclear woes," says Rettgers. "It's back to coal, and mouth of the mine sources and locations."

The South has a good supply of oil and natural gas. *Nation's Business* points out that a major, "model" oil refinery is coming to Wilmington, N.C., as a test to see if Atlantic Coast refineries are feasible. In addition, all eyes are watching where the Government will build a series of plants to the tune of $88 billion to convert coal and shales to useful energy.

Many schools and universities in the Northeast, and, especially New England, prepare students for careers in high tech and service industries. Many southern schools and universities have focused more on industry and manufacturing offering middle-to-high wages. Through extensive training programs pioneered in several southern states, among them South Carolina and Virginia, firms relocating or starting up in the South are communicating their needs to regional technical and vocational centers which, in turn, train workers and match them to existing job opportunities. Taking off now are programs allowing workers to train on equipment loaned by prospective employers under their own supervisors. Screening and training for prospective employers is usually free of charge.

Training programs in both the North and South key curriculums to regional needs. In the North, schools turn out more professional managers, financial specialists, service pros. In the South, some of the same skills are taught with more emphasis, however, on manufacturing, engineering and basic technical subjects. With decline of manufacturing in the North, computer firms and service industries often outbid manufacturing firms for the top talent.

The South is moving fast in developing a technical base. Virginia Polytechnic Institute has built a technical training complex; Texas A&M, Houston, Western Carolina, Southern Tech, and schools in Florida are among those serving the need of the industrial distributor; and the Winston-Salem Research Triangle Park area, a haven for R&D, is fueled by graduates from Duke, North Carolina and North Carolina State Universities. With the exception of MIT, Lehigh, Drexel, RPI, Stevens and others, there are few technically oriented universities in the North.

The Bureau of Labor Statistics indicates that wholesale trade employment continues to grow in the South. Richard McKenzie, in a report for the American Enterprise Institute, shows that wholesale trade employment was up 27% in the South between 1972-1978. Increase in

Southern recovery from the 1974-75 recession
Growth in manufacturing employment, 1974-78
Arkansas
U.S. (total)
Kentucky
Tennessee
District of Columbia
North Carolina
Delaware
Maryland
Virginia
West Virginia
Florida
Other regional examples
New York
Oklahoma
California
Massachusetts
Louisiana
Mississippi
Alabama
Georgia
South Carolina
West South Central
East South Central
South Atlantic

'Small companies are the ones that need tax breaks.'—*Myers*

Manufacturing earnings: actual and projected, 1970-2000 (1967 dollars, in millions)

	1970	1980	1990	2000	Increase
U. S. (total)	156,589	216,533	280,419	343,408	122.5%
New England	11,084	13,390	15,810	17,907	61.6%
Mideast	37,624	43,032	48,267	52,641	39.9%
Great Lakes	45,580	63,080	77,758	91,163	100.0%
Plains	9,785	14,181	18,717	23,493	140.0%
Southeast	24,674	41,810	63,024	88,473	258.6%
Southwest	7,671	12,745	19,648	27,890	263.6%
Mountain	1,868	3,326	5,034	7,119	281.1%
Far West	18,041	24,597	31,607	38,938	115.8%

Key:
New England—Conn., Maine, Mass., N.H., R.I., Vt.
Mideast—Del., D.C., Md., N.J., N.Y., Pa.
Great Lakes—Ill., Ind., Mich., Ohio, Wis.
Plains—Iowa, Kan., Minn., Mo., Neb., N.Dak., S.Dak.
Southeast—Ala., Ark., Fla., Ga., Ky., La., Miss., N.C., S.C., Tenn., Va., W.Va.
Southwest—Ariz., N.M., Okla., Texas
Mountain—Colo., Idaho, Mont., Utah, Wyo.
Far West—Calif., Nev., Ore., Wash.

(Source: Bureau of Economic Analysis)

- Dispersion of industry is a trend that started decades ago—and will probably continue through the end of the century. The greatest growth of manufacturing earnings is expected in two regions that until recently were relatively underdeveloped: the Southwest and Mountain states.
- The Southeast should also continue on a strong growth trend, more than doubling the national average for manufacturing earnings. Tied to that growth are large increases in population, as well as strength in such manufacturing sectors as nonelectrical machinery, chemicals, and rubber and plastics.
- Contrary to the argument that the South is "stealing" industry from the North, economic growth in one of the Snowbelt's most important regions, the Great Lakes states, is expected to remain strong through the year 2000, although at a rate lower than the national average.

employees in wholesale trade in the West was up 32%. Figures for the North and North Central states: up 9% and 20% respectively.

Growth in suburbia

It was once deemed axiomatic that if you were to be successful in business in a big way, it was necessary to position yourself strategically in an urban center, one reason so many major corporations still operate out of New York, Los Angeles, Chicago, Cleveland, Houston, Dallas and other major metropolitan sites.

According to Keith Wheelock, president of Fantus Co., commercial and industrial relocation specialists, in 1950 the headquarters of nearly 40% of all *Fortune 500* corporations were located in New York and Chicago. Last year, 1979, only 33% of the *Fortune 500* companies still in the New York area were in the suburbs. Some 37% of the *Fortune 500* companies are in the suburbs of Chicago.

Johns-Manville Corp. moved from the heart of Manhattan to a sprawling space-age facility nesting in the mountains outside of Denver; National Gypsum moved from Buffalo to Dallas; Cities Service moved from the financial district of New York City to rustic Asheville, N.C.; Western Electric moved one of its plants to Greensboro, N.C.; Texaco to posh Coral Gables, Fla.

Industrial distribution, among other industrial services, can survive in the smaller urban centers of the U.S. According to a recently published list, many large companies are headquartered in the less populated municipalities: Murphy Oil, annual sales $1.15 billion, in El Dorado, Ark., population 25,283; Liggett (diversified, tobacco), annual sales $943.2 million, in Durham, N.C., population 95,483; Magic Chef (appliances), annual sales $296.8 million, in Cleveland, Tenn., population 20,651; Sonoco (paper products and chemicals), $270.6 million in annual sales in Hartsville, S.C., population 8017; Smith's Transfer (trucking), $193.2 million in Staunton, Va., population 24,504; Associated Coca-Cola (bottler), $189.9 million in Daytona Beach, Fla., population 45,327; J. M. Tull (metals), $108.7 million in Norcross, Ga., population 2755.

"I feel the growth in the South will occur mostly on the outskirt areas of small cities (200,000) and in the suburbs of larger cities. It won't be downtown," says Browne. Williams agrees, pointing to better roads and cheaper land than in downtown areas. This parallels the growth pattern in the North, where many operations have shifted to the suburbs, away from the congestion of the urban areas. Companies in New York have not necessarily flown southward. They've relocated operations and opened branches in neighboring Connecticut, New Jersey and Pennsylvania, as well as in suburban Westchester, Nassau, Rockland and Suffolk Counties. Within New England, there has been a good deal of movement away from urban concentrations. The main beneficiaries from all of this movement in New England are New Hampshire, Connecticut, Maine and Vermont, with Connecticut and New Hampshire enjoying the highest number of inmigrating firms.

George M. Stephens, principal, Stephens Associates, Raleigh, N.C., notes that the non-metropolitan areas now account for 38% of the South's population. These areas grew by 1.8 million, one third of the South's population growth, between 1970-1976.

Labor costs are important, the climate is an important factor, unionization is a key, cost of transporation is vital, yet all of the keys inherent in making a decision to start-up or relocate or open a branch of a company anywhere in the U.S. often comes down to the quality of life factor for management. In surveys performed by relocation management consultants, the integral factors in selecting a location often came down to: low personal income tax (as opposed to corporate); less crime; less congestion; fewer hassles with government regulations; physical geographical attractiveness; good school system; low cost of living; cheaper housing with mortgage availability, and good recreation.

One factor that might throw a wrench into the best-laid plans of managers could be a growing sentiment among legislators to demand advance warning from a company before it relocates. Bills in Congress now would require two years' advance notice of a move, with compensation and benefits for workers (one week's severance pay for each year of employment until new jobs could be found). *The National Employment Priorities Act* (Ford/Riegle) and the *Employee Protection and Community Stabilization Act* (Williams) are backed by the AFL-CIO and UAW. Similar measures in 1974 went nowhere, yet the states of Ohio, Rhode Island, New York, Oregon, Massachusetts, Michigan and New Jersey are looking at measures to prevent

'Population and industry will balance out.'—*Bretzfelder*

companies from pulling up stakes on a whim, thereby disrupting communities. The problem, according to Will S. Myers Jr., senior analyst with the Advisory Commission on Intergovernmental Relations, is "How do you sort out economically based, market-oriented moves from attempts to get out from under regulations or taxes?"

The Mason-Dixon Line

The southern economy has been growing faster than that of the North, at least since the end of World War II. It's been growing for a long time. The only factor that obscured substantial growth in the South for a long time was the disproportionate decline of its southern farm economy, which tended to drag down overall figures.

"Usually this issue is presented in a rather simplistic fashion: the South against the North or the South *stealing* industry from the North. In fact, this is not true, with the possible exception of textiles," exclaims Eugene Janisch, of the projections branch, Regional Economic Analysis Div. of the Bureau of Economic Analysis. "Textiles did indeed move from New England to the South. But that was a phenomenon that started in the 1920's and was over by the 1950's." (Now, according to Jill Thompson of Data Resources Inc., Lexington, Mass., the South is losing textiles to Indochina, which competes favorably with even cheaper labor costs than the South.)

Robert B. Bretzfelder of the BEA points out that the machinery to manufacture textiles is still made in the North, while virtually all of the heavy textiles are made there and the garment industry largely remains in the Northeast.

"The whole concept of the South stealing from the North or vice versa is extremely boring," stresses Janisch. There really isn't any data available to support this thesis. He cites the example of General Electric. It would be hard to say that GE moved from Schenectady, N.Y., to Georgia. "Usually, what you find is that electrical machinery, which represents a heavy generating plant in Buffalo, disappeared and the same classification for the same company came up in Atlanta. You could jump to the conclusion then that electrical machinery went from Buffalo to Atlanta. In fact, you may discover that the facility went to Germany while the Atlanta plant is manufacturing washing machines.

"Or, instead of expanding in upstate New York, they build a plant in Birmingham and eventually the plant in Schenectady is shut down," adds Bretzfelder, "and today it is built in the South instead. It's not usually a case of here's a plant that closes down in the North and reopens in the South."

"If you have a process that requires a lot of tool and die makers and expert machinists, you'd better go look up in Connecticut or Vermont or California, for that matter," says Janisch. Janisch theorizes that population and corporate moves may be an urban-suburban phenomemon. With high income levels, but high wage levels, and high cost of living, the urban state is going to have more problems than a rural state. Indeed, in New England, the more rural states of Maine, Vermont and New Hampshire have increased in population and industrial growth.

From late 1973 to the end of 1978, only New York, New Jersey, Pennsylvania, Maryland, Connecticut, Massachusetts and Illinois have grown at rates *under* the national average. Half of the southern states grew at close to the national average. The other half exceeded the average. But the entire West was well above the national average. "From these figures, we don't see any slowing of the national growth rate," says Bretzfelder. "I doubt that industry is moving from the North. There's simply more growth in other areas."

Howard Friedenberg of the BEA emphasizes that it is the western states that are growing most rapidly. However, he points out, figures can be deceptive. These states started from a smaller base. Any corresponding increases, on a percentage growth basis, really show up. "You'd need quite a bit of growth in absolute terms in heavily industrialized states to achieve the same percentage growth."

A classic example is Alaska, which, through "The Pipeline," grew at an astounding rate, with huge salaries and inflation as a consequence. The situation was not sustained growth though, and when the pipeline ended, Alaska's astounding growth came back down to Earth.

Older states' industry normally grows slower than in newer ones. The more industrialized states in the South: Virginia, the Carolinas, Tennessee and Florida, grew at rates close to the national average over the last five years. By contrast, the states in the Southeast not traditionally industrialized: W. Virginia, Kentucky, Alabama, Arkansas, Louisiana, Texas, Mississippi—all grew at rates well above the national average in that time.

Bretzfelder agrees with the demographic theory of *convergence* of the population in the U.S. "But," he adds "there will come a time when urban problems will develop in the new, large cities that will make it less desirable to move there: water problems, air pollution problems and the whole gestalt of the Northeast states. As that happens, distribution of population and industry will likely balance off nationally.

"We all like to think that taxes are a key factor. We all like to point to something and say, the Government is doing this, taxes are doing that, the cost of living is doing this, the unions are doing that, pollution and energy costs are doing that. We're human beings, and it's our nature to want to know the reason and put the problem in little boxes. And that's where this idea of the South versus the North fits in. It's a comfortable little box. But it's also a dangerous concept, pitting one region against another."

"The New South"

By the year 2000, according to census estimates, the population of the South will account for 20 million of the projected 38 million increase in U.S. population. Industry will respond to meeting the market demands of this new group by setting up new facilities.

The well-known growth areas of the South: Tulsa, Oklahoma City, Dallas-Fort Worth, New Orleans, Washington (D.C.), Atlanta, Houston, Miami, will continue to grow, according to George M. Stephens, principal of Stephens Associates, Raleigh, N.C. Yet there will be many new centers of growth (see map) looking for a place in the sun and attracting industry. The population increase has to bring more industry, more jobs, higher income levels, and more disposable capital. Services, like distributors, will continue to grow, supporting manufacturing and supplying local populations, in what Stephens calls "self-generating growth." A consensus of experts agrees that the South will continue the high rate of growth it experienced in the 1960's and 70's, throughout at least the 1980's. As far as market opportunities goes, "that ain't just whistling Dixie." □

22nd annual convention. . .

NEIDI—no longer the poor cousins

At the tail end of a 'very good year,' New Englanders point to strong sales and mature markets as reasons for their optimism about business in the new decade.

HYANNIS, MASS.—"If this is recession, give us more of it," was the catch phrase at the New England Industrial Distributors' 22nd annual convention.

That optimism was clearly illustrated by the number of manufacturers and distributors who turned out for the meeting—nearly 400, some 30 more than last year.

"We're more than gratified at the turnout," said NEIDI assistant secretary Henry J. Lamb. "It's indicative to us of the continued strength of this organization as well as the maturity of the New England market."

This is not to say that New Englanders are going to escape the pressures of the recession, but NEIDI distributors appear less worried now than they would have been a few years ago when faced with similiar circumstances. In fact, New England distributors participating in the *NIDA-SIDA Industrial Distribution Index* actually listed greater sales increases for the first 10 months of 1979 than the national and eastern averages, when comparing 1979 monthly sales levels to those of 1978 (see table).

What is happening? In large part, it appears to be the result of a stable industrial base, at last. At the time of the NEIDI convention, business was still quite good.

"Business has been excellent in southern Connecticut," said J. H. Stagg III, NEIDI president. Surprisingly, said Stagg, manufacturers seemed to feel business wouldn't remain strong during the last quarter, while distributors seemed convinced it would be.

His firm, the Hawley Hardware Co., Bridgeport, services a part of Connecticut that has a large concentration of defense industries and machine tool manufacturers. Defense contracting showed no signs of weakening in the last quarter. The September level of new machine tool orders, for example, was pegged at an astounding 64% above the year-before mark.

Looking at the Connecticut economy from another part of the state, Mark E. Nelson, Apostle-Nelson Inc., Newington, found satisfaction in continuing brisk sales. "I don't see Connecticut being that dramatically affected," the cutting tool specialist and NEIDI secretary-treasurer said.

"We're extremely busy," said Nelson. In part that was due to one of the bases of the local economy—integrated circuit manufacturing.

Also benefiting from the advanced technology fueling the region's performance is Joseph Edinburg, NEIDI first vice president and president of Boston's Chandler & Farquhar Co. "I'm bullish on Massachusetts either way—recession or no recession," Edinburg commented.

He based his optimism on the need for greater operating efficiency and productivity in American business and industry. If there is no recession—or a very slight one—then Bay State distributors will continue along at their current pace, Edinburg reasoned. If there is a recession, and he conceded that one seems likely, there will be greater incentive to computerize to achieve that efficiency.

Massachusetts should benefit in that case because it has a great deal of the computer industry, both hardware and software, resident there, he pointed out.

Stagg acknowledged some softening of business with customers who supply consumer products, but said that industrial accounts should take up the slack, at least in the short term.

New England, despite its gains during 1979, is by no means recession-proof. According to economic studies of the region, manufacturing employment was stronger there during the year than in the rest of the country. Particularly healthy was durable goods manufacturing.

Even so, if anything more than a mild downturn strikes, durable goods are vulnerable to down-shifts in the economy. If economic indicators do turn sour, analysts say, the fast-growing northernmost states of Vermont, New Hampshire and Maine will temper the level of overall decline in the region. The more industrialized economies of New England's southern states are going to encounter greater problems.

Also on the agenda was a discussion of energy.

Ironically, said Dr. David C. White in an address to NEIDI conventioneers, there simply is no energy shortage at present. Indeed, he contended, the U.S. has the "energy potential" for 500 years' consumption.

Energy potential—resources that are likely, but not yet proven—is strong in this country, the Massachusetts Institute of Technology professor said.

Fully 70% of that potential is in coal, with 20% in recoverable energy from heavy crude oil, shale and tar sands. Unfortunately, he said, only 10% of total potential resources are in oil and natural gas. Yet, half of energy demand, current and forecasted, is for petroleum.

Since petroleum remains the energy resource of choice, "many crises will continue to crop up," White predicted, largely because dependency on petroleum results in dependency on foreign production.

The forecast: With stable production, steady price hikes ahead of the inflation rate. Without stability, high jumps as seen in the first six months of 1979.

Gregory W. Miller

New England distributor sales running strong...
(1979 sales compared to year-before levels)

	National	East (Me. to Md.)	New England
January	22.3%	18.0%	25.7%
February	22.9%	19.6%	32.8%
March	17.4%	13.9%	22.7%
April	15.2%	10.7%	14.9%
May	15.8%	10.1%	16.6%
June	15.4%	11.6%	19.3%
July	15.6%	18.2%	21.8%
August	18.0%	16.0%	18.5%
September	8.8%	5.9%	19.0%
October	9.7%	7.2%	26.8%

Source: NIDA-SIDA Industrial Distribution Index

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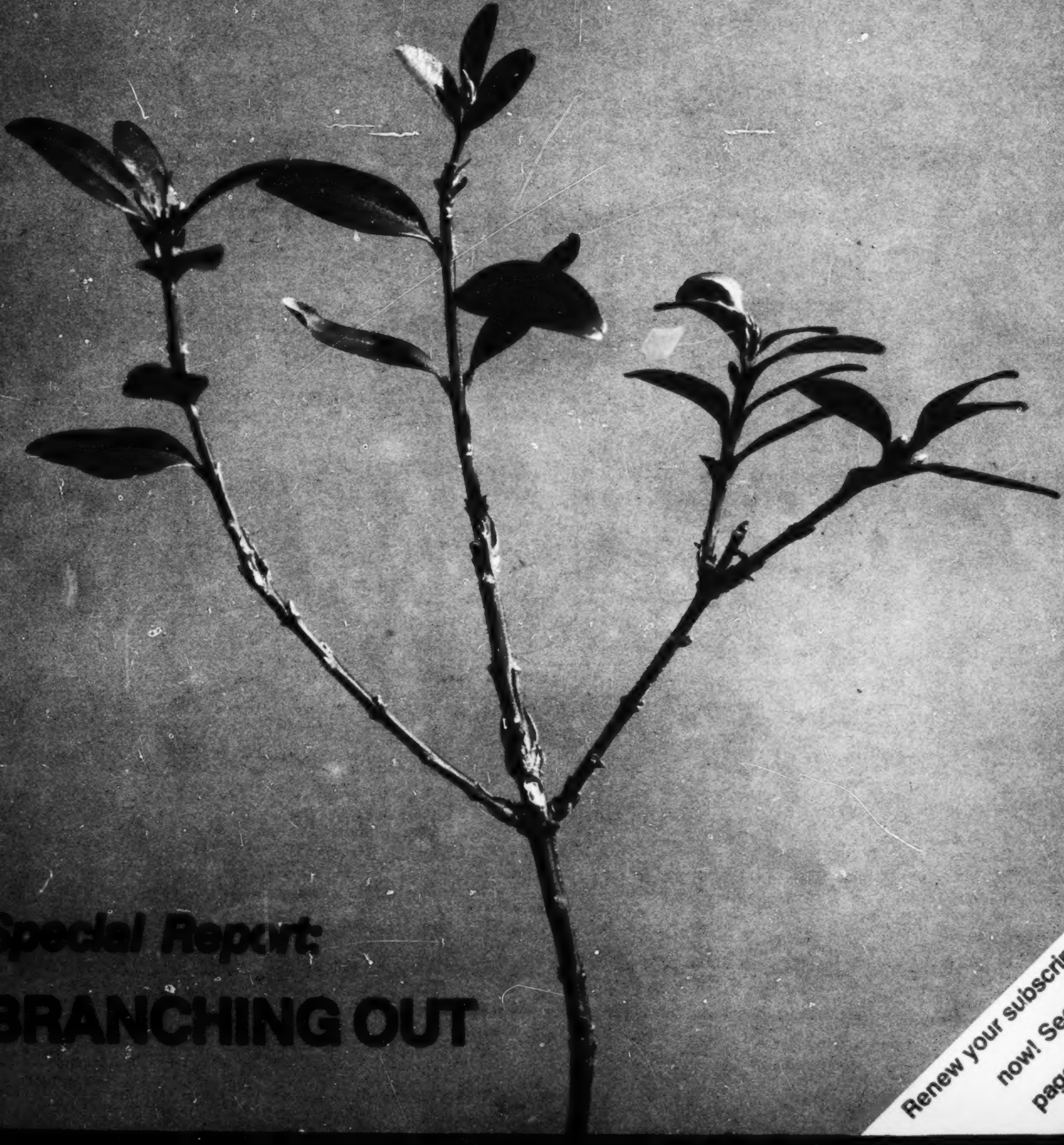
Industrial Distribution

February 1980

Hotline:
20% rise in national R&D to spur opportunities for distributors



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STAFDA ASMMA PTDA BPA ABP

February 1980
Vol. 70, No. 2/70th year
A Morgan-Grampian publication

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Indicators. . .

Purchases of industrial supplies increased nationally in November, according to the *NIDA-SIDA Industrial Distribution Index*. The index, compiled from the monthly MRO sales figures of 100 distributors, stood at 283.4, up 8.6 points (3.1%) from October and 30.1 points (11.9%) from the year-before level. The *NIDA-SIDA Inflation Index*, based on the sales prices of 10 products, was at 232.9 points in November, up 0.7% from October and 9.6% from the year-before level. (Both indexes are 1967=100.) Regional sales, comparing November to month-before and year-before levels, were: east, 243.5, up 6.2% and 11.2%; midwest, 266.1, up 2.3% and 7%; west, 317.6, up 1.9% and 20.1%; south, 322.4, up 4.1% and 17.1% . . .The November *ASMMA New Order Index* was down 3.9 points (1.5%), standing at 258.3. The two-month, moving average was only 0.3 points above the year-before level. . .The *FRB Index of Production Manufactures* was at 143.9 in November, down 1.5 points from October's revised level. . .The *SIDA Monthly Sales Trend Report* for November had an overall sales decline of 7.7%, with an 8.8% increase over the year-before level. Area II (Fla., Ga., S.C., P.R.) posted the weakest performance for both periods, down 19.1% and 0.8% respectively. . .The National Welding Supply Assn.'s *Welding Supply Index* was at 136.3 in November, down 11.4 points from October, but up 12.7 points from the year-before level. . .The National Assn. of Aluminum Distributors *Quick Pulse Index* stood at 203.7 in November, down 17.4 points from October and 11.1 points from November 1978. . .The National Wholesale Hardware Assn.'s *Wholesale Hardware Index* stood at 209.8 in November, up 2.4 points from October and 19.7 points above the year-before level. . .The National Assn. of Purchasing Management said the economy dropped sharply in December. NAPM's *Business Survey Report* indicated that order backlogs were being reduced as production and new orders declined. However, the purchasing agents said excessive buildup of inventories had been avoided.□

November sales show a 6% decline

November brought a decline in distributor sales, according to *Regional Report* respondents.

The drops in October-to-November sales were not radical—5% for general liners and 9% for specialists, bringing a weighted average of 6%—but they seemed likely to make fourth-quarter totals the worst of the year.

Even with the declines, another was posted in September, it appeared clear that 1979 was a strong sales year. Sales for the first 11 months of the year were 18% above the same period in 1978.

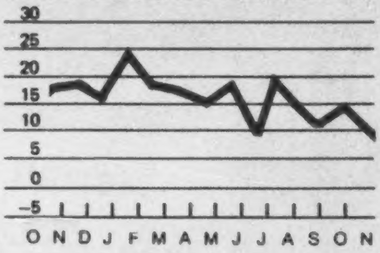
But by November it appeared fairly likely that the long-expected decline of the economy was at hand.

The Commerce Dept.'s index of leading indicators fell by 1.3%, the largest drop since April and the index's fourth in the preceding five months.

The major influences in the decline, according to Commerce analysts, were housing and the auto industry. Both sectors were very weak.

The specific indicators down included building permits, average workweek, layoffs, slower deliveries, money supply and new orders.□

% changes in sales when compared with same month in previous year



Still 9% higher than a year before, but signs of weakness are evident...

Receivables*	November 1979		November 1978	
	Gen.	Spec.	Gen.	Spec.
New England	41.9	42.4	40.7	37.4
Middle Atlantic	40.1	41.7	39.6	41.8
South Atlantic	32.6	34.4	32.6	35.7
East North Central	34.0	38.6	32.7	39.5
East South Central	38.2	40.0	38.9	38.0
West North Central	39.8	40.0	35.9	42.0
West South Central	49.5	41.7	40.0	44.0
Mountain	52.0	42.0	44.0	33.0
Pacific	40.3	44.7	32.9	44.6
U.S. Average	40.3	40.6	37.5	39.6

*Average days outstanding

SALES BY REGIONS (% change)	Nov. '79 vs. Oct. '79			Nov. '79 vs. Nov.'78			11 mos. '79 vs. 11 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	−22	−9	−18	−1	33	16	16	24	21
Connecticut	−27	−8	17	−5	13	4	16	33	24
Massachusetts	−22	−7	−10	1	14	8	16	17	16
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−24	−8	−8	−6	−8	−7	32	17	24
New York Metropolitan Area	−5	12	4	15	4	9	12	18	15
Upstate New York	−23	−2	−12	−39	−1	−20	5	3	4
Pennsylvania	−8	−1	−4	10	19	14	40	24	32
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	31	−10	11	40	23	32	16	20	18
Georgia-Florida	−5	−10	−8	38	20	29	23	18	21
EAST NORTH CENTRAL: Ohio, Ind.,Ill., Mich., Wis.	13	−15	−1	5	11	8	26	19	23
Indiana	13	18	15	7	26	16	22	28	25
Wisconsin	−3	−1	−2	10	20	15	15	38	26
Chicago	−12	−11	−11	−1	12	6	10	30	20
Michigan	−18	−40	−29	3	−8	−3	14	10	12
Ohio	−16	−9	−13	19	23	21	32	16	24
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−15	−3	−9	5	2	3	10	17	14
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	18	−6	6	24	9	16	15	16	16
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	31	−7	19	−9	7	−1	5	3	4
Texas	−36	−4	−16	2	−11	−1	22	−2	10
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−13	−14	−13	3	12	8	12	19	16
PACIFIC: Calif., Ore., Wash.	−2	−40	−19	30	−28	1	22	14	17
L.A.-San Diego	1	−7	−3	25	7	16	26	16	21
Oregon-Washington	−4	−27	−16	30	6	18	22	8	15
U.S. TOTALS	−5	−9	−6	9	9	9	18	18	18

Industrial Distribution

March 1980

Hotline:
No slowdown seen for acquisitions despite tight money

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34th Annual Survey of Distributor Operations

Industrial Distribution

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Indicators. . .

Sales of industrial supplies declined in every region during December, according to the *NIDA-SIDA Industrial Distribution Index*. The national reading was 260.6, down 22.8 points (8%) from November and up 13.4 points (5.4%) from December 1978. The *NIDA-SIDA Inflation Index* for December was at 235.0, 2.1 points (0.9%) over November and 21.2 points (9.9%) over December 1979. (Both indexes are 1967=100.) Regional sales for December, comparing December to month-before and year-before levels, were: east, 232.0, down 4.7% and up 8.4%; midwest, down 9.7% and 0.04%; west, 295.6, down 6.9% and up 14.9%; south, 299.1, down 7.2% and up 9.1%. . .The *ASMMA New Order Index* stood at 257.7 in December, down 2% from November and up 1.7% from December 1978. . .The *FRB Index of Production Manufactures* was at 144.8 in December, up 0.1 points from November and 2.4 points from the year-before level. . .The *SIDA Monthly Sales Trend Report* showed a 6.4% increase in December-from-November sales. The figure was 13.7% when compared to December 1978's. Despite the overall increase, two regions had decreases. Area III was worst hit, with drops of 12.2% in the most recent period and 3.4% in the 12-month period. . .The *Welding Supply Index* of the National Welding Supply Assn. dropped 6.5%, 136.3 to 127.5, in December, remaining 15.2% above the year-before level. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. stood at 211.8 in December, up 0.95% from November and 10.5% from December 1978. . .The National Assn. of Aluminum Distributors' *Quick Pulse Index* dropped 14 points (6.9%) in December. The index was 20.2 points (9.6%) below its year-before level. . .New factory orders increased 1.3% in December to $148.5 billion after holding steady in November. . .The Commerce Dept's index of leading economic indicators stuck at 136.8 in December, the same reading listed in November and 1.2 points below October's. . .Business inventories rose only 0.4% in December to $426.3 billion. This followed a 0.8% increase in November. □

December sales—down again

Sales of industrial supplies dropped in December by as much as 4% overall, according to *Regional Report* respondents.

The fourth quarter brought a decline in each of its three months, trimming the grins of an otherwise strong sales year. Even so, general line respondents finished the year 15% higher than in 1978, with specialists at 17% higher.

Looking ahead to the first quarter of 1980, one widely respected barometer of economic performance pointed to continued slippage in January.

The January *Business Survey Report* of the National Assn. of Purchasing Management indicated that production and new orders were still eroding, with employment lower but not falling.

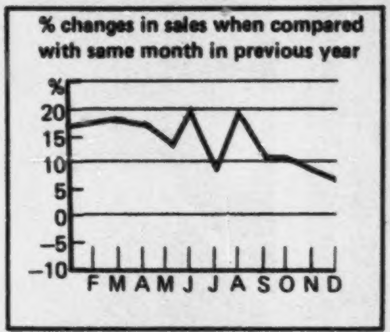
Respondents to the monthly survey are purchasing agents in a broad section of industry. Although they reported poorer business conditions in general, their consensus was that "the decline is not snowballing."

A number of respondents said they feel increased defense spending may aid against a sharp dropoff. "Confidence and reports of good business are still being voiced by many," said Charles T. Haffey, chairman of the Business Survey Committee.

"These positive comments outnumber those reporting distress conditions by more than two to one." □

Receivables*	December 1979 Gen.	December 1979 Spec.	December 1978 Gen.	December 1978 Spec.
New England	39.8	38.5	43.1	35.1
Middle Atlantic	40.0	41.9	40.7	42.7
South Atlantic	35.4	36.3	37.2	35.3
East North Central	37.8	38.9	38.0	38.5
East South Central	34.0	39.0	38.0	39.5
West North Central	44.1	43.6	43.9	42.6
West South Central	46.0	40.2	47.5	39.3
Mountain	45.2	41.8	43.7	38.0
Pacific	35.4	39.9	40.9	45.3
National	39.7	40.0	41.4	39.6

*Average days outstanding



Despite fourth-quarter declines, sales in 1979 were 16% higher than in 1978...

SALES BY REGIONS (% change)	Dec. '79 vs. Nov. '79 Gen.	Spec.	Both	Dec. '79 vs. Dec. '78 Gen.	Spec.	Both	12 mos. '79 vs. 12 mos. '78 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	6	−14	−1	9	11	10	18	21	19
Connecticut	17	−18	5	23	12	19	16	18	17
Massachusetts	−5	−6	−6	−3	12	7	3	23	16
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−7	2	−2	−1	[illegible]	4	11	16	14
New York Metropolitan Area	−3	2	1	8	9	9	12	15	14
Upstate New York	−8	2	−2	−14	21	8	−1	14	8
Pennsylvania	13	14	14	2	8	5	14	23	19
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−1	−8	4	14	15	14	19	18	19
Georgia-Florida	8	−6	−4	12	17	16	16	21	20
EAST NORTH CENTRAL: Ohio, Ind.,Ill., Mich., Wis.	−8	−4	−6	1	16	8	15	22	18
Indiana	−11	15	6	3	22	16	20	23	22
Wisconsin	−14	−13	−14	6	8	7	14	20	16
Chicago	5	10	7	8	24	15	14	32	22
Michigan	−19	−20	−19	−21	−20	−21	8	5	7
Ohio	−1	—	—	4	—	—	19	—	—
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−11	−14	−13	−18	−12	−14	6	3	4
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	−20	−8	−12	−9	9	3	16	9	11
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−22	−13	−18	−6	4	2	14	13	14
Texas	9	−1	3	7	7	7	26	12	18
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−1	−12	−7	28	5	17	16	10	13
PACIFIC: Calif., Ore., Wash.	−12	5	−3	11	10	10	26	16	21
L.A.-San Diego	−23	6	−11	−12	13	−1	21	17	19
Oregon-Washington	−7	4	−1	24	15	18	28	17	22
U.S. TOTALS	−5	−4	−4	3	10	7	15	17	16

MARCH 1980

Industrial
Distribution

34th Annual Survey of Distributor Operations...

'79 sales up 14%; profits steady

It was supposed to be a year with a business downturn but, according to respondents to the survey, that prediction didn't come true. The outlook for '80? No dramatic changes in sales goals and a stronger push to maintain profitability.

Despite threats of recession throughout the year, distributors managed to post respectable sales gains in 1979.

Total average sales, general line distributors and specialists combined, were up 14% for the respondents to ***ID's*** *34th Annual Survey of Distributor Operations*.

Overall, the results of the poll indicate that 1979 as a business year was without radical shifts or downturns despite many predictions of imminent economic stiffening and significant pressures on the nation's economy.

For example, the prime rate exceeded 15% late in the year, prompting many to predict that receivables would become badly stretched. That does not appear to have been the case, however.

General liners' year-end receivables median value was $239,286, up 2.2%, with median days outstanding at 45.5, up half a day.

Specialists were somewhat more troubled by receivables. Median value at year's end was $232,447, up 10.4% in dollars but only 3.5% higher, to 48.7, in average days outstanding.

Gross profit steady

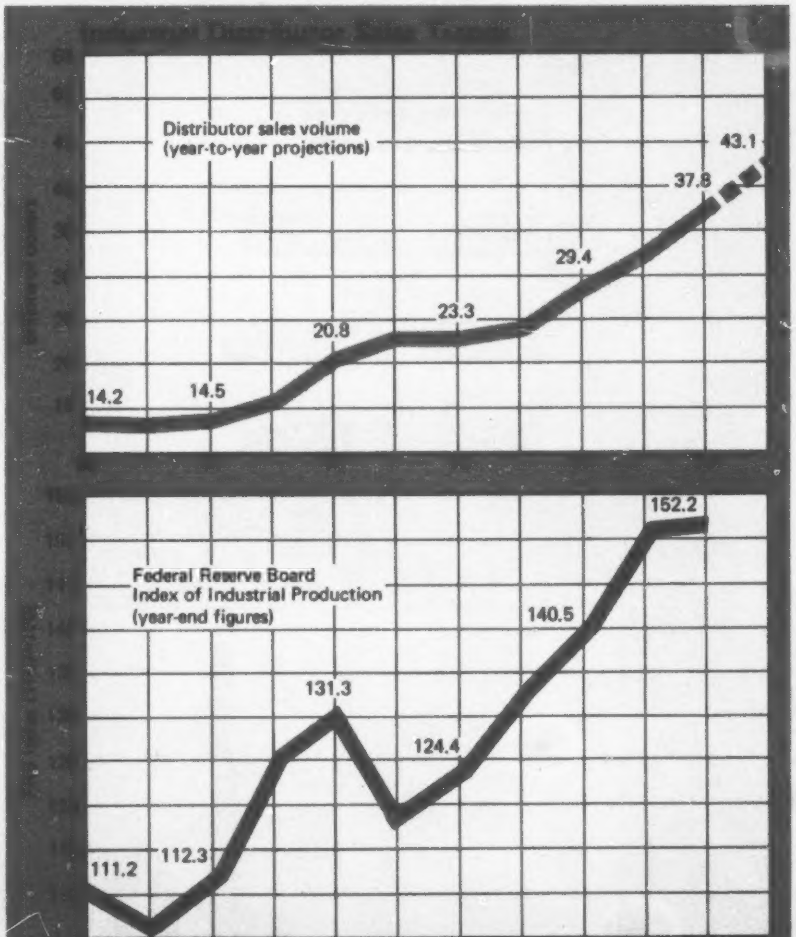
Also encouraging are figures on respondents' gross profits. Figured as a percentage of total sales, this measure was generally steady (see graph on page 49).

General line respondents even showed a 1979 improvement in net profit after tax, from a median of 2.6% to 3.4%, while specialists, at 2.6%, rose 0.1%.

Part of the reason for improvements in profitability can be traced to an apparent hold on operating expenses, shown on page 50 as a percentage of total sales. For general liners in 1979, that figure stood at a median of 17.4%, down 1.6%. Specialists were lower at 15.6%.

One good reason to hold down operating expenses is the certainty of continually increasing prices.

While respondents' predictions for sales in 1980 work out to an average of 14%—13% for general liners and 15% for specialists—



The year at a glance

- **Gross profit:** general line up, specialists steady
- **Operating costs:** general line lower, specialists lower
- **Before-tax net:** general line down, specialists down
- **PPR:** general line steady, specialists improve
- **Collections:** general line steady, specialists higher

distributors foresee no relief from producer-price hikes.

While the respondents' forecast for 1980 sales is optimistic in the aggregate, a closer look at the regional breakdown (see below) shows that expectations vary.

For instance, Northeast general liners see a 12% increase, while the specialists in the same region see a rise of 17%. Reversing that split, South Atlantic general liners posted an overall average of 24%, while specialists there saw only 15% growth.

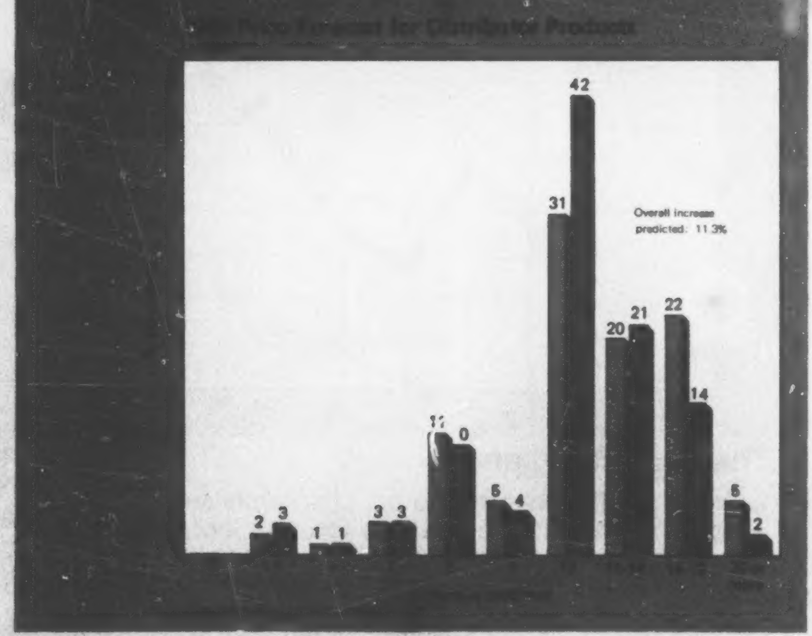
Also, regional predictions for growth in 1980 tend to follow patterns of increased sales during 1979. The Northeast had an average rise in sales of 12.6%; South Atlantic, 23%; North Central, 11.8%; South Central, 19.7%; West, 13.7%.

Another indication that respondents enjoyed a good business year in 1979 comes from the figures for return on investment.

The median ROI for general liners was 16.1%, up 3.2%, while the median for specialists' ROI stood at 16.4%, up 0.4%.

At the same time, median figures for net profit before tax dropped somewhat: to 4.1% from 5.3% for general liners and to 3.7% from 6.1% for specialists.

Price Forecast for Distributor Products



Holding the line

Other indications of a push to maintain profitability come in three measures of personnel productivity—sales per employee, gross profit per employee and the personnel productivity ratio. With each measure, respondents either surpassed 1978 marks or at least held close to them.

Increased sales per employee in both general line and specialist categories probably most reflects increased sales. The median 1979 figure for general line respondents was $149,000, up from $119,000. For specialists, the figure was $139,000, up from $121,000.

Gross profit per employee also showed increases: general line, $39,000, up from $34,000; specialist, $39,000, up from $29,000.

With the personnel productivity ratio (PPR), gains were less clear for both specialists and general liners.

The formula is:

$$\frac{\text{Total compensation}}{\text{Gross profit \$}} \times 100$$

The formula was devised by consultant George C. Webster to measure the productivity of distributors and other wholesalers. An acceptable average is 45%, with higher figures a sign of poor productivity.

As shown in the graph at the bottom of page 50, the medians for both 1979 and 1978 indicate that specialists have a distinct edge over general liners in this area. However, it should be noted that one-half of respondents will be over and half under the median in either category.

Personnel pattern

Generally, distributors are unlikely to sharply increase the size of their staffs, except through acquisitions. That is borne out by the respondents' figures (see graph on page 53).

General line respondents had a median of 16.4 employees in 1979—the same as in 1978. Specialists had a median of 16.9, up 0.8. Some increases showed up in the breakdown for outside salesmen, but little for counter and phone work.

Respondents do plan to increase sales personnel this year. For general line, 56% of respondents said they will hire more, 33% of those in inside sales and 50% in outside sales. Specialists predicted similar hirings: 59% plan to do so, with 34% looking for inside salesmen and 51% interested in more outside help.

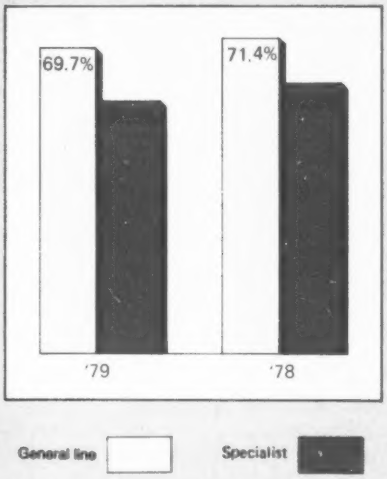
Regionally, the South Atlantic has the highest median for number of employees,

Profit & Loss

How did the profit picture look in 1979? Not too bad, according to our respondents. Gross profit bounced around across size categories, as it always does. But averaging median levels indicates that there was actually little change from 1978 levels. For instance, the average of general line medians in all four size categories for general line in 1979 was 23.5%, up 1.5%. The specialist average was 22%, down 2%. For after-tax net profit, some overall improvement was shown, particularly for general liners. Return on investment? Slightly improved for both specialists and general liners. The outlook for 1980? It all depends on inflation, the strength of the economy and the amount of effort distributors employ to maintain their profit performance.

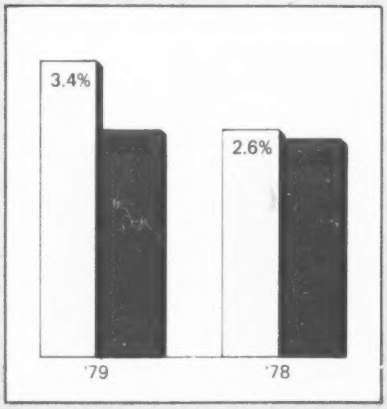
Sales from Stock

(% of total sales)



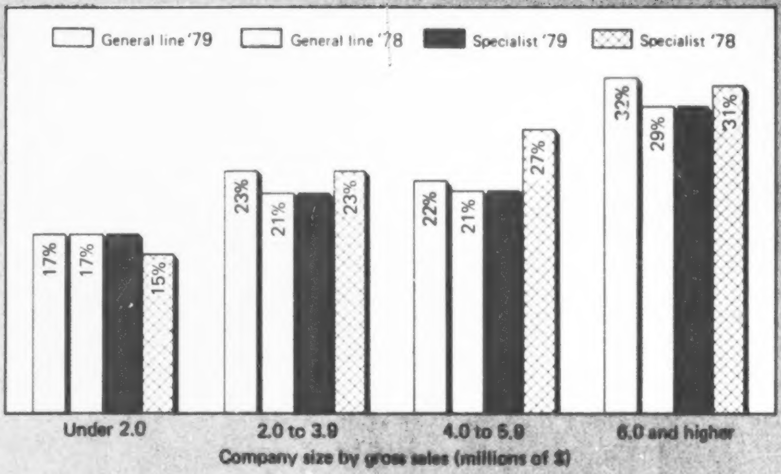
Net Profit After Tax

(% of total sales)



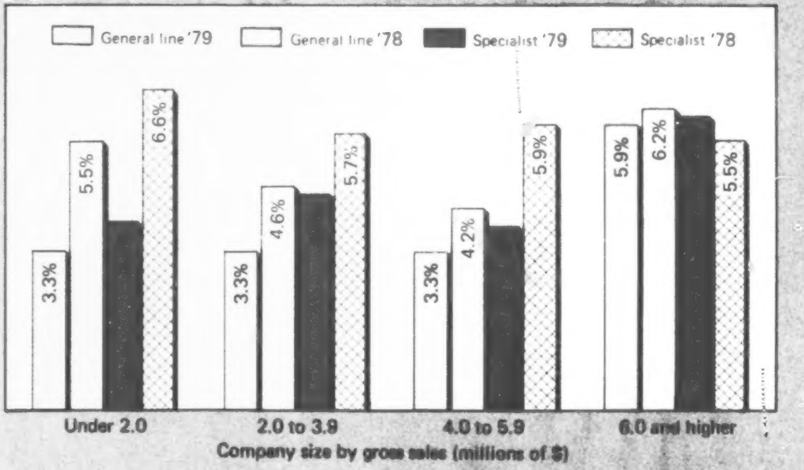
Gross Profit

(% of total sales)



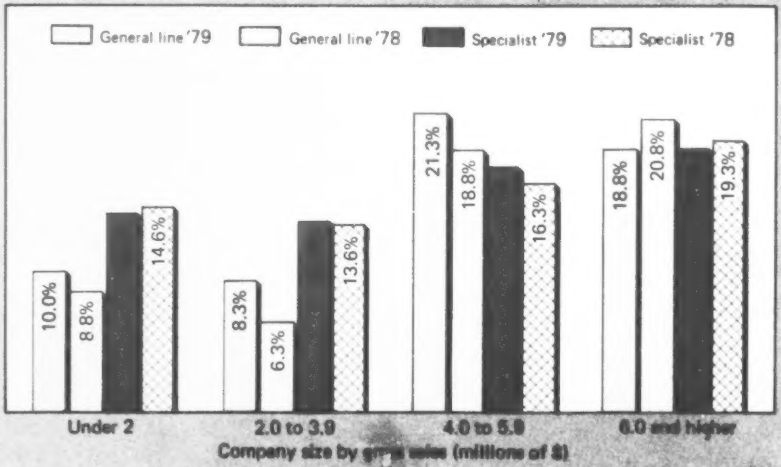
Net Profit Before Tax

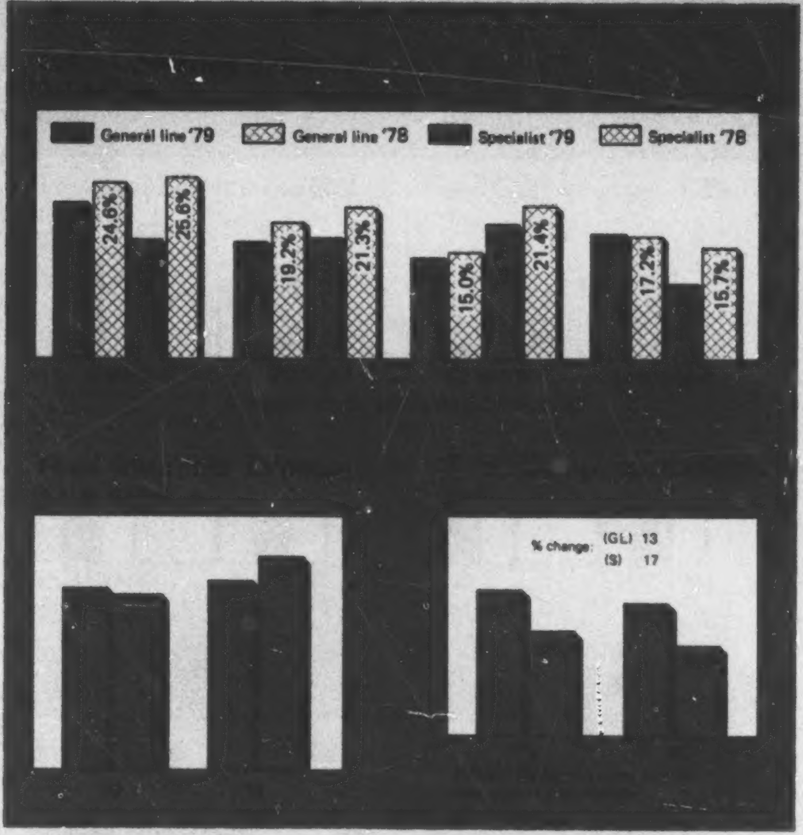
(% of total sales)

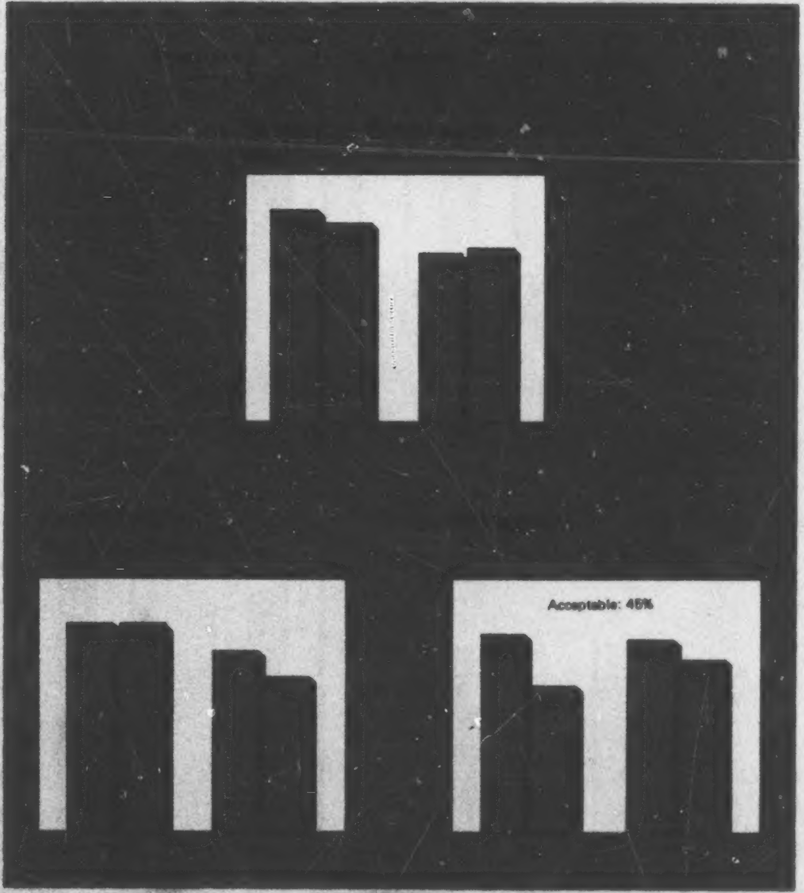


Return on Investment

(return on net worth)







Definitions...

Median: Generally considered to be the best way to prevent distortion in a sample that might otherwise be dominated by large or small companies. For any given performance measure, the numeric values of the range are arrayed from the strongest to the weakest. The figure that falls in the middle of the array is the median. The firms listed above it had stronger performances, the ones below it had weaker. Unless otherwise noted, medians are used in all graphs.

Average: The mean obtained by adding different figures or values together and dividing the sum by the number of quantities. Used in this survey where it has more value than the median or as a comparison point to the median.

General line: Distributorships in which no one major product category—i.e., cutting tools, power tools, bearings—accounts for 50% or more of total sales.

Specialists: Distributorships in which one product category accounts for 50% or more of total sales.

24, followed by South Central, 20; West, 16.6; North Central, 16.3; Northeast, 13. The 1979 median for general line firms is 16.6, while that of specialist respondents is slightly higher at 16.9.

Expansion plans

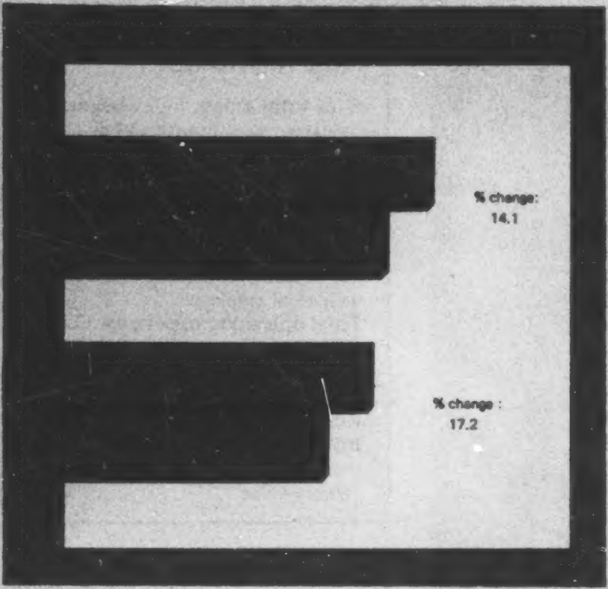
At least with this sample of distributors, the majority of general line and specialist firms follow the industry stereotype on size—single-location houses with no near-term plans for expansion.

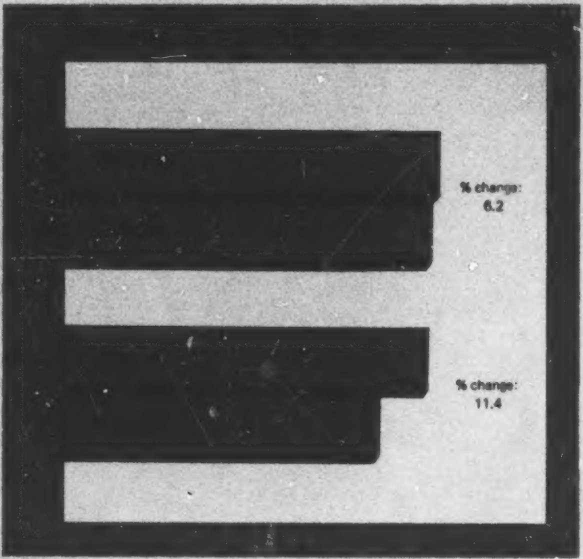
Some 44% of general line respondents have no branches (down from 50% in 1978) and 49% of specialists report the same finding (see graph on page 54).

Only 15% of general liners and 16% of specialists have plans to add branches this year. Moreover, most of growth will come from larger firms. Of general line firms with less than $4 million in sales, only 9.7% plan to open branches, while 31% of firms with sales between $4 million and $6 million plan to do so. For specialists, the breakdown is similar—8.6% and 31%.

Warehouse space, in median sq ft, showed some 1978-to-1979 growth. The general line figure was 14,375, up 6.2%; specialist, 10,481, up 11%. Yet here as well, relatively few respondents plan expansions—20% of general liners and 24% of specialists.

As with inflation, the cost of compensation keeps rising—often faster than overall prices because it is increasingly important





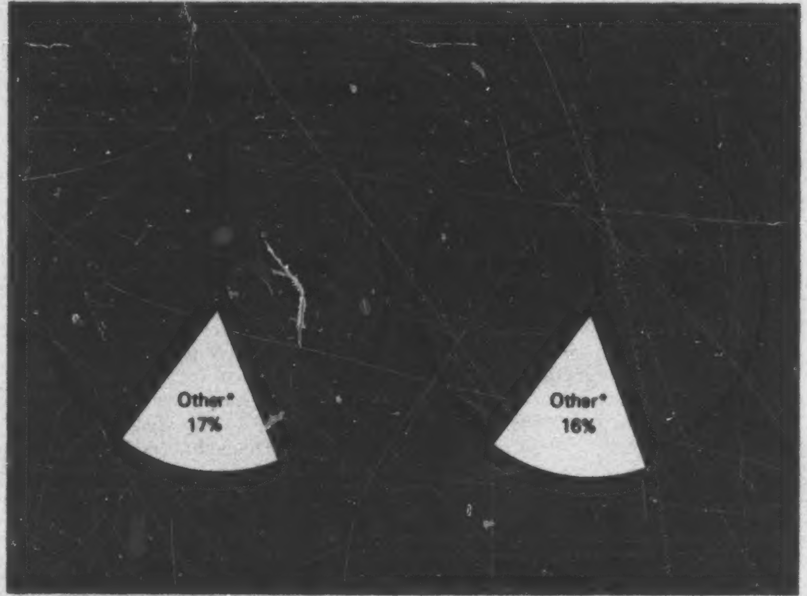
to maintain an experienced staff.

The graph on page 53 shows that the median increase for compensation in 1979 was higher for general liners than for specialists (21% to 16%), but it doesn't show the wide regional variations in median compensation.

- National: $310,000, up 23%.
- Northeast: $312,500, up 20%
- South Atlantic: $400,000, up 25%.
- North Central: $244,643, up 13%.
- South Central: $475,000, up 6%.
- West: $361,111, up 25%.

Insurance expenses stayed fairly even for general line respondents—from a median of 0.71% of total sales in 1978 to 0.68% in 1979. Specialists' median drop was from 0.80% in 1979 to 0.67%.

Computer expenses rose for both categories, probably reflecting shifts to use of in-house systems. General line respondents had a median of $45,300 for computer expenses in 1979, up 13%. Specialists spent less in total dollars but more in percentage increase—$33,000, up 17%. (More information on computerization can be found in the graphs on page 55).



Inventory value up

In keeping with increases in sales during 1979, respondents' inventory values also rose. For general liners, the 1979 median value was $335,000, up 14.1%. For specialists, the median was $232,447, up 17.2% (see graph on page 51). Increases varied, but generally the smaller the company, the larger the median increase.

- Less than $2 million: general line, $155,000, up 24%; specialist, $115,625, up 23%.
- $2 million to $4 million: general line, $437,500, up 17%; specialist, $360,577, up 11%.
- $4 million to $6 million: general line,

$458,331, up 15%; specialist, $562,000, up 17%.

- More than $6 million: general line, $811,648, up 8%; specialist, $895,000, up 10%.

The accounting methods used to keep track of that inventory showed little shift between the two years, according to the respondents.

FIFO (first in, first out) led with both categories combined, 43.2% in 1979, 43.7% in 1978. LIFO (last in, first out) trailed, with 39.9% of respondents using it in 1979 and 39.7% in 1978. Those using "other" methods—generally described "our own" or, in one case, "NIFO: next in, first out"—came in at 16.9% in 1979 and 16.6% in 1978.

Changing to LIFO

LIFO, generally considered a more accurate method of inventory valuation under inflationary conditions, is more popular with general line respondents than specialists (43.7% to 37.4%).

If LIFO is indeed the stronger of the two accounting methods, how many respondents plan to make the switch?

Overall, 11.5% of respondents said they will be changing over this year. For general line, the figure is 12.3%, with specialists at 10.7%.

Some movement is seen in inventory turns. Using medians, the general line figure was 3.4, down 0.4 from 1978. The specialist median turn rate was 3.8, up 0.2.

Discounts from suppliers are always of interest. But there is little change to report (see graph below).

Expressed as a percentage of gross profit, the median for income earned for discounts by general line respondents was 0.35, down 0.2. The specialists' median was the same for both years, 0.31. Medians across the four categories of company size for both specialist and general line ranged between 0.30% and 0.40%.

A controversial subject for distributors is the cost of product liability insurance and the seemingly capricious jumps in premiums many firms have experienced in the last five years or so.

Key formulas...

% of total sales: Individual measure (i.e., sales from stock) divided by total sales. Result is multiplied by 100.

Sales per employee: Total sales divided by number of employees.

Gross profit per employee: Gross profit, in dollars, divided by number of employees.

Total operating expenses: Costs of selling, delivery, salaries, warehouse, EDP, insurance, land and building occupancy, general and administrative.

Inventory turnover: Stock sales at cost divided by average monthly inventory value.

In a new survey question, ***ID*** asked what percentage increase respondents received for coverage in 1980.

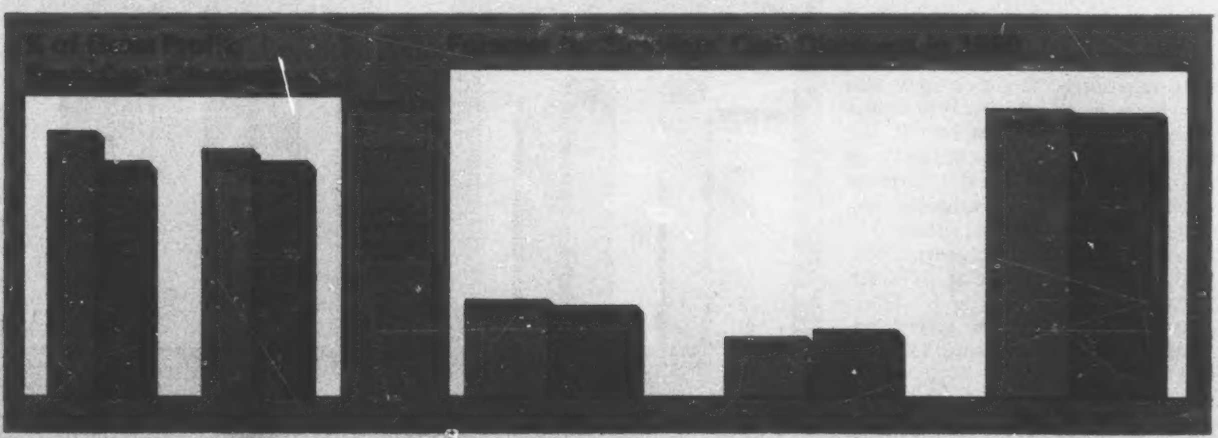
Liability costs

Overall, they reported a median of 13.3%, although the average of their answers came to 34%—largely because of the very high premium adjustments received by the unfortunate few. (One respondent noted that his new rate was 250% higher, although his firm had never been involved in a liability suit). Twenty percent of respondents said they received no increases; 12% saw premiums hiked 100% and more.

Neither specialist nor general line firms seemed to be worse off in this area: Both reported roughly equal median increases, 13.1% and 13.4% respectively.

Traditionally, few distributors have been involved in product liability suits. The results from this sampling bear that out. Of all respondents, only 6.7% had been during 1979. (General liners and specialists were almost exactly equal here: 6.8% and 6.6% respectively).

Of those caught in suits, 27.3% had been penalized, although the figure would un-



doubtedly be higher if the still-pending cases had been adjudicated.

Using EDP

This group of distributors was evenly split on use of a computer—49% did and 51% did not. Size was the key factor.

- Less than $2 million: general line, 33% used EDP; specialist, 27%.
- $2 million to $4 million: general line, 52% used EDP; specialist, 58%.
- $4 million to $6 million: general line, 91% used EDP; specialist, 58%.
- More than $6 million: general line, 90% used EDP; specialist, 92%.

Overall, 69% used in-house systems, up 7% from 1978. Of the noncomputerized respondents, 32% plan to change that status this year. In-house systems are the most popular for those just entering EDP; 86% plan to use them.

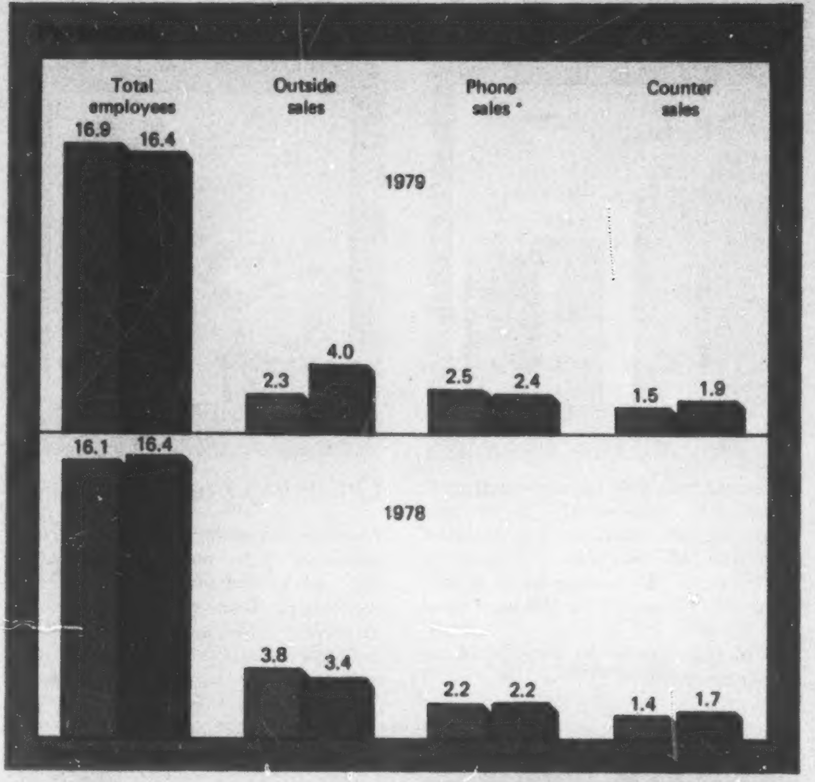
One of the advantages of having an in-house system is the capability it can provide for on-line (direct access, instant response) service. Already using that capability were 48% of the respondents employing EDP in 1979.

While standard numbering (11-digit and item inventory coding) can be employed without EDP, it is most easily made part of distributor operations through use of a computer, preferably on-line and in-house.

Only 8.9% of specialists did use it in 1979, compared to 18.5% of general liners. While standard numbers are often called "NIDA-SIDA numbers," the system was actually developed by the National Assn. of Wholesaler-Distributors, which is currently campaigning for its increased use. The main industrial distributor associations are affiliated with NAW and many are encouraging members to use the system.

Those employing standard numbers now apply it to varying amounts of their inventories (see graph page 56).

Of those who plan to go to standard numbering in the future, general liners again double the specialists' figure—32% to 15%.



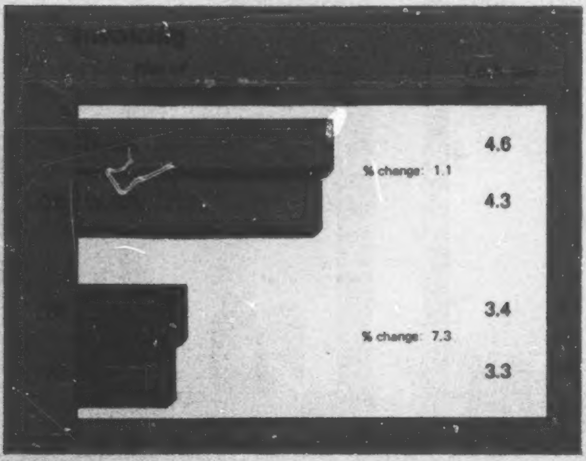
While a large part of the 14% increase in sales cited at the beginning of this report is undeniably the result of inflation, there was some growth.

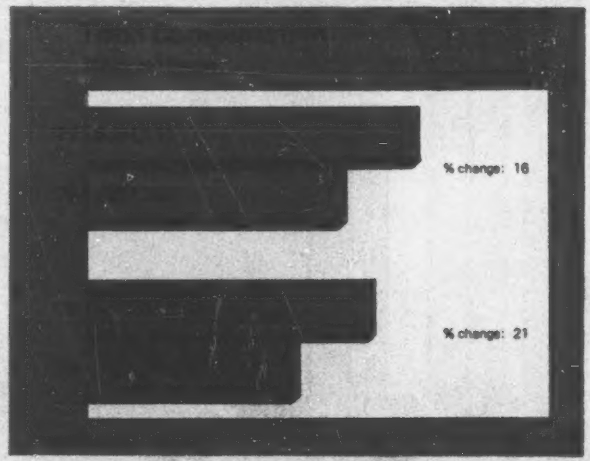
Overall, survey respondents seem to have experienced fairly smooth going in 1979. If it wasn't the best sales year ever, it was certainly not the worst in distribution during the last decade.

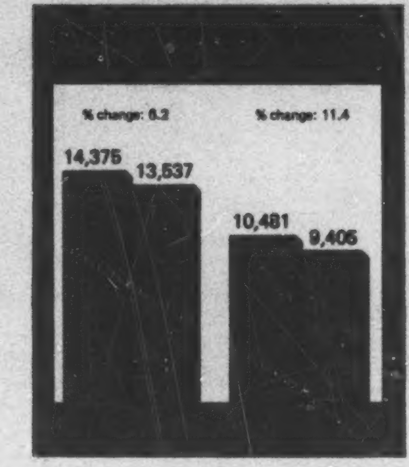
But what about 1980?

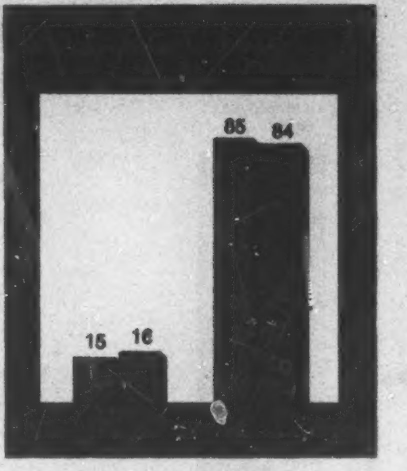
Looking ahead

As mentioned earlier, the combined average projection for sales this year is 14%. But that figure tends to obscure the pessimism of some and optimism of others.









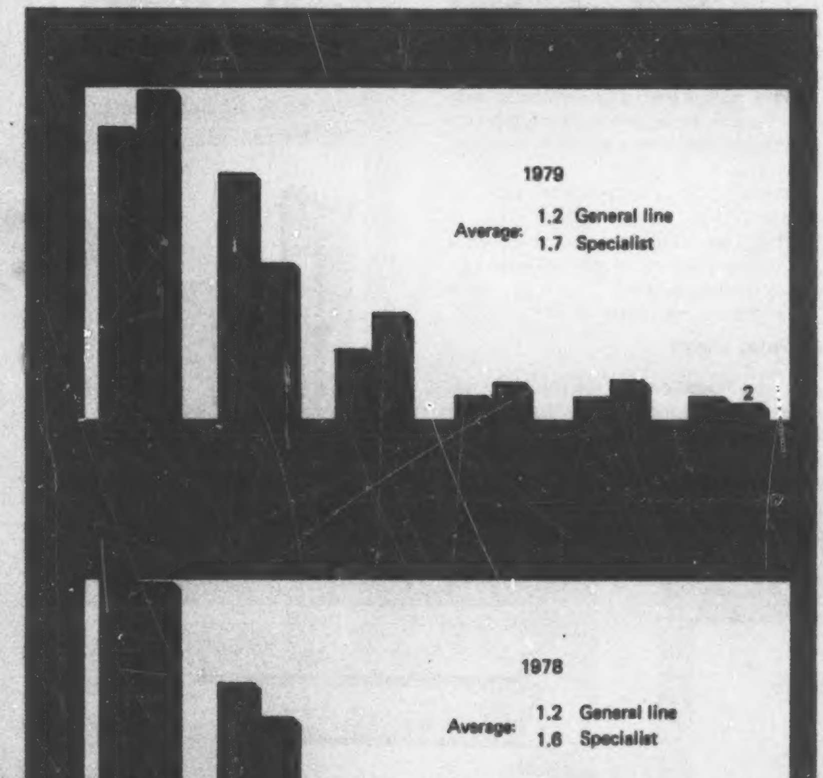
For example, 45% of respondents predicted sales increase of 14% or less. Balancing that, 55% hope for increases of more than 14%—with 24% looking for up to 19% more, 18% looking for up to 24% more and 13% striving for 25% more business this year.

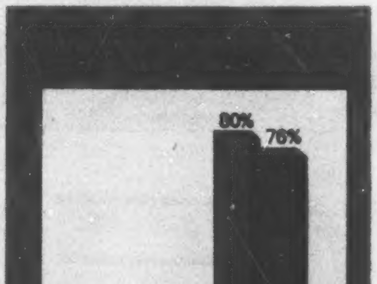
And that has to be considered an optimistic outlook.□

On using the survey...

Through computerized analysis and collection of the mass of information supplied by distributors from all over the country, **ID** *has presented the results in several different formats to enable individual firms to compare their own performance to national and regional norms. Since each year's survey is culled from a different group of respondents, comparisons between one year's report and another should not be made. The industry sales line shown at the start of this report is taken from Census Bureau data on performance during that period in Standard Industrial Classifications 5084, 5085 (sales of industrial supplies and equipment). The remaining data presented in the graphs and tables are from the current group of respondents, whom we asked to provide 1979 and 1978 figures for comparison. The survey results have been presented using both medians and averages, where applicable. It should be noted that the median is a better indicator of an individual distributor's place in relation to others, although the average is useful in determining industrywide placement. Of the general line firms, 44% had sales of less than $2 million; 25%, $2 million to $3 million; 11%, $4 million to $5 million; 20%, more than $6 million. Of the specialists, 45% had sales of less than $2 million; 29%, $2 million to $3.9 million; 11%, $4 million to $5.9 million; 20%, more than $6 million. Fifty-nine percent of respondents classified themselves as specialists. A breakdown of their product categories provides an illustration of the variety of firms operating under the overall classification of industrial distributor.*

- *Fluid power, 20.5%.*
- *Cutting tools and abrasives, 15.7%.*
- *Material handling, 9.2%.*
- *Pumps and compressors, 9.2%.*
- *Power transmission, 8.6%.*
- *Rubber and hoses, 8.1%.*
- *Fasteners, 8.1%.*
- *Welding, 6.5%.*
- *PVF, 5.4%.*
- *Machine tools, safety, bearings construction and mining, metals, electrical-electronic, contractors' supplies, power tools, MRO items, aluminum, totalled less than 3% each.*

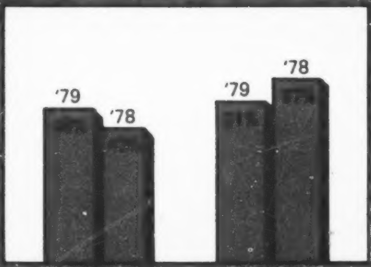




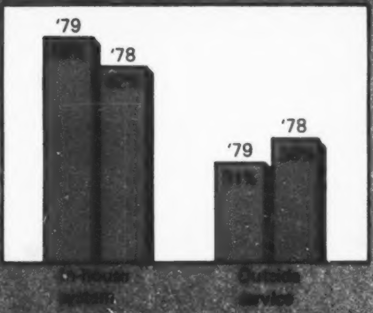
Computer Use

Sooner or later, some contend, the computer will be a standard tool in the operation of every business, large or small. That may be. For the time being, the ranks of those respondents who do and do not use EDP are fairly evenly split. That ratio is likely to change soon, however. Some 32% of the respondents who don't already use computer services plan to change that status this year. The large majority, in fact, plan to work with in-house EDP, which is considered the most sophisticated of the available options.

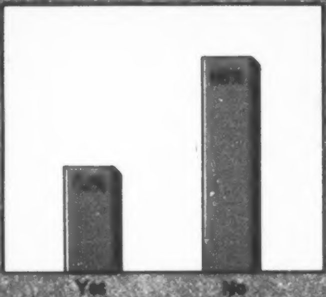
Computerized?



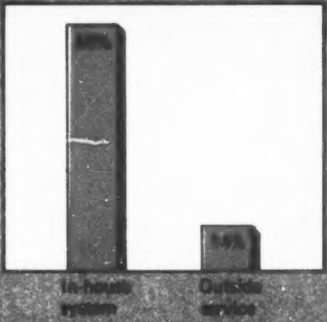
If Yes, What Method?



Computerize This Year?



If Yes, What Method?



System On-line?

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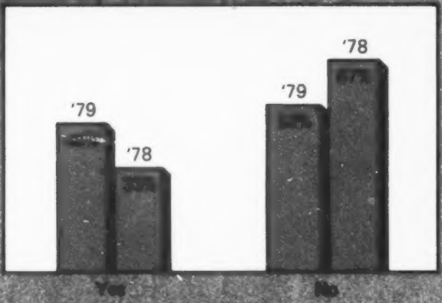
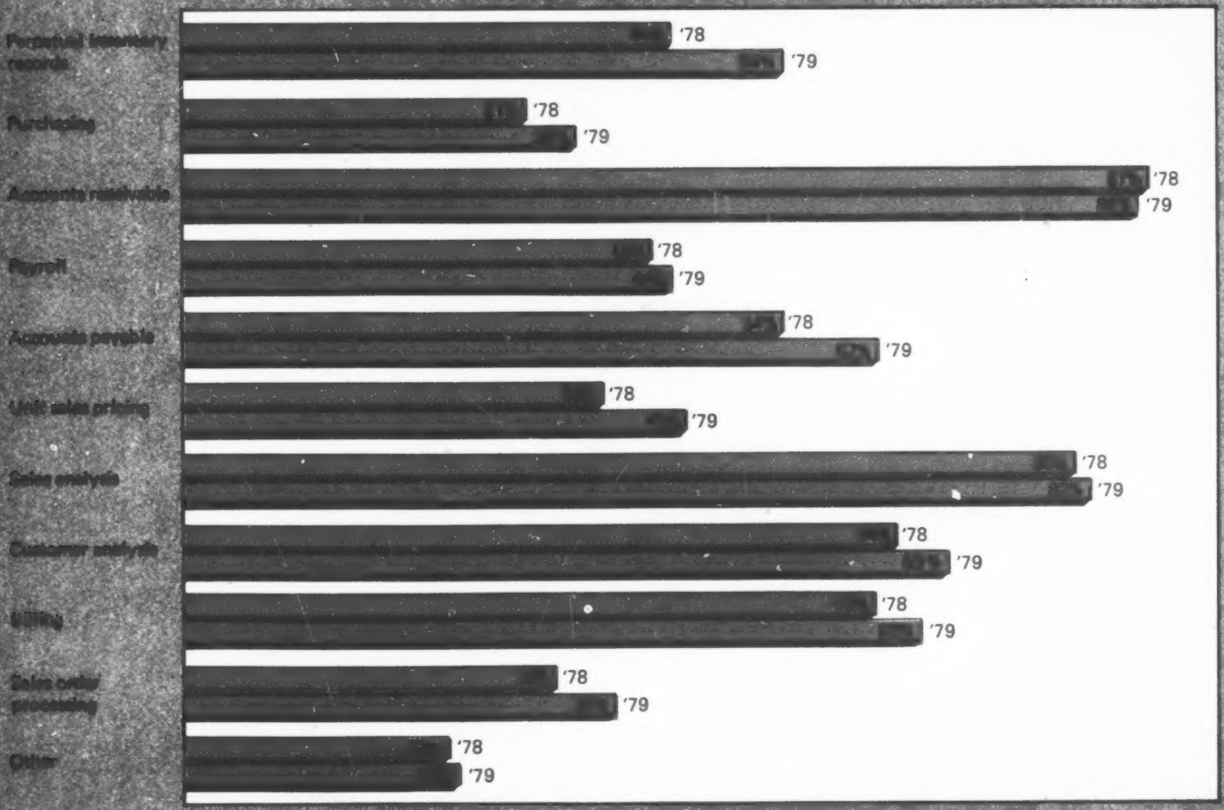
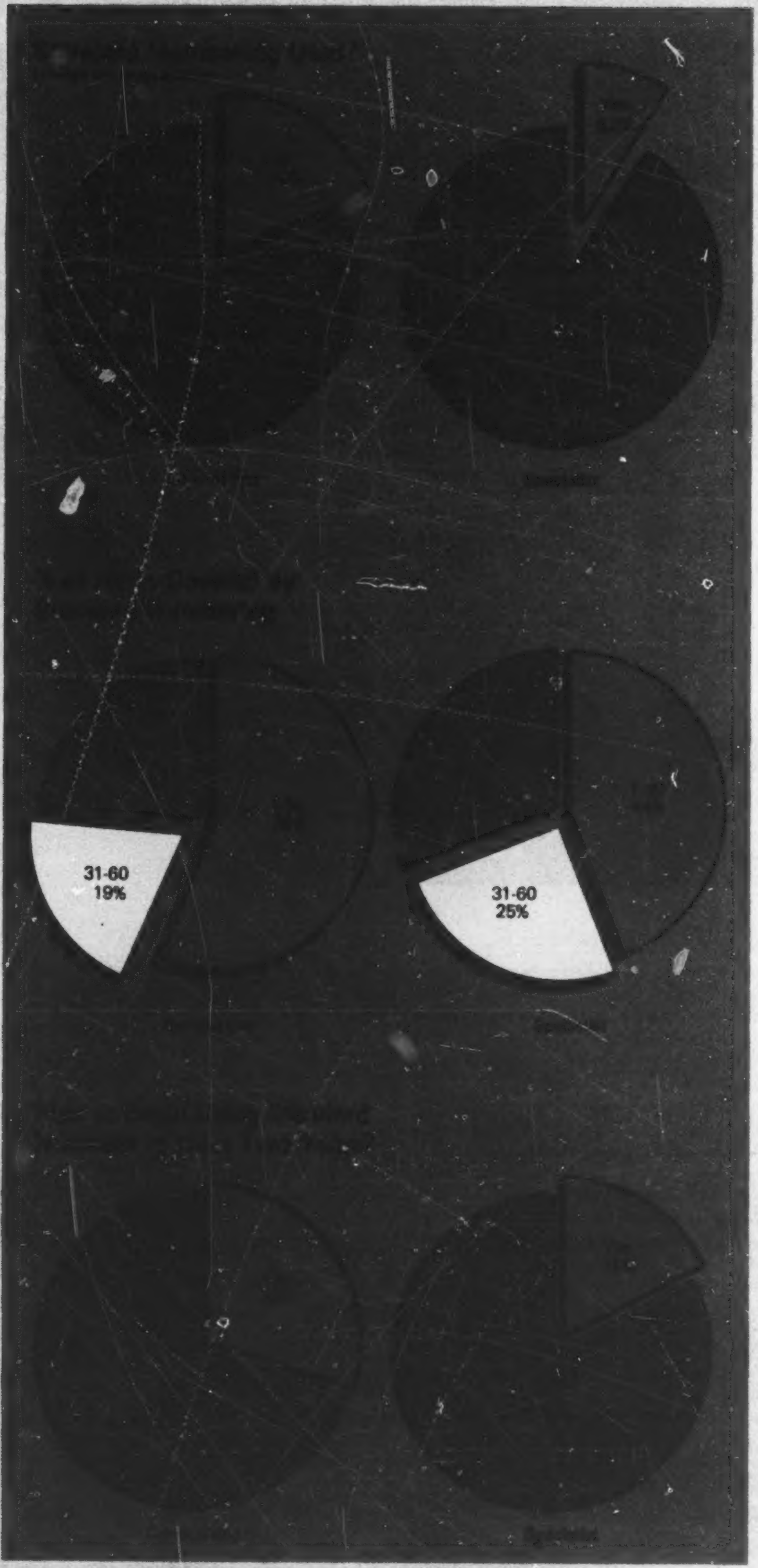


Computer Applications





Performance by region: How does your company compare?

All key reporting and performance data of this report have been collated by region to allow managers and salesmen to compare their firms' figures against the norms for their areas. Note, however, that the separate figures (gross profit, operating expense, net before tax, for example) do not correspond to one another sequentially in the way they would on an income statement. They are each separate figures derived from different numbers of respondents. The regions are purposefully left broad to ensure that the figures presented are representative. Medians are used in most instances to ensure that the information is not imbalanced or distorted by a small sample in any one measure or region.

Respondents by region...

Northeast: 24.1%
South Atlantic: 11.9%
North Central: 33.5%
South Central: 12.2%
West: 18.3%

Northeast
Conn., Maine, Mass., N.H., N.J., N.Y., Pa., R.I., Vt.
South Atlantic
Del., D.C., Fla., Ga., Md., N.C., S.C., Va., W.Va.
North Central
Ill., Ind., Iowa, Kan., Mich., Minn., Mo., Neb., N.Dak., Ohio, S.Dak., Wis.
South Central
Ala., Ark., Ky., La., Miss., Okla., Tenn., Texas
West
Alaska, Ariz., Calif., Colo., Hawaii, Idaho, Mont., Nev., N.M., Ore., Utah, Wash., Wyo.

	National		Your figures	Northeast		Your figures
	'79	'78		'79	'78	
Total sales ($000)	$2,373	$1,953	______	$1,923	$1,774	______
Sales from stock (% of total sales)	63%	65%	______	51%	52%	______
Gross profit (% of total sales)	28%	25%	______	31%	22%	______
Total operating expenses (% of total sales)	21%	21%	______	23%	18%	______
Net profit before tax (% of total sales)	4.08%	4.08%	______	2.76%	2.72%	______
Net profit after tax (% of total sales)	2.92%	2.52%	______	1.79%	2.21%	______
ROI (return on net worth)	16.3%	15.2%	______	13.8%	11.4%	______
Sales per employee ($000)	$142.1	$120.5	______	$149.1	$138.6	______
Gross profit per employee ($000)	$39.4	$30.5	______	$46.9	$25.1	______
Monthly inventory value ($000)	$300.4	$256.0	______	$264.7	$220.8	______
Receivables value as of Dec. 31 ($000)	$234.6	$218.2	______	$203.1	$179.7	______
No. of days outstanding at Dec. 31	48.1	42.5	______	53.8	50.0	______
No. of invoices billed (000)	8.8	8.4	______	8.1	7.8	______
No. of lines of billing per invoice	3.8	3.7	______	3.5	3.3	______
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No. of employees	16.7	16.2	______	12.9	12.8	______
No. of outside salesmen	3.9	3.7	______	3.2	3.1	______
No. of inside (phone and counter) salesmen	4.1	3.7	______	4.1	3.6	______
Warehouse sq ft (000, including branches)	12.4	11.1	______	10.0	9.8	______
No. of branch locations (avg.)	1.2	1.2	______	0.7	0.6	______
Total compensation ($000)	$310.0	$253.0	______	$312.5	$261.4	______

	South Atlantic		Your figures.	North Central		Your figures
	'79	'78		'79	'78	
Total sales ($000)	$3,100	$2,714	______	$2,391	$2,143	______
Sales from stock (% of total sales)	64%	65%	______	64%	62%	______
Gross profit (% of total sales)	28%	28%	______	25%	22%	______
Total operating expenses (% of total sales)	23%	25%	______	18%	16%	______
Net profit before tax (% of total sales)	4.95%	3.68%	______	3.92%	3.23%	______
Net profit after tax (% of total sales)	4.13%	2.91%	______	2.09%	2.07%	______
ROI (return on net worth)	16.7%	15.0%	______	15.6%	16.0%	______
Sales per employee ($000)	$129.2	$116.5	______	$146.7	$141.0	______
Gross profit per employee ($000)	$36.5	$32.2	______	$37.5	$22.4	______
Monthly inventory value ($000)	$305.6	$312.5	______	$250.0	$246.4	______
Receivables value as of Dec. 31 ($000)	$250.0	$267.9	______	$235.0	$195.0	______
No. of days outstanding at Dec. 31	46.3	44.0	______	48.7	46.6	______
No. of invoices billed (000)	7.5	6.9	______	8.3	8.9	______
No. of lines of billing per invoice	3.1	3.0	______	4.1	4.0	______
- - - - - - -						
No. of employees	24.0	23.3	______	16.3	15.2	______
No. of outside salesmen	4.8	4.1	______	4.3	4.1	______
No. of inside (phone and counter) salesmen	5.2	4.5	______	3.6	3.4	______
Warehouse sq ft (000, including branches)	16.7	15.5	______	11.4	9.7	______
No. of branch locations (avg.)	2.1	1.9	______	1.2	1.2	______
Total compensation ($000)	$400.0	$321.4	______	$244.6	$217.2	______

	South Central		Your figures	West		Your figures
	'79	'78		'79	'78	
Total sales ($000)	$3,000	$2,111	______	$2,250	$1,942	______
Sales from stock (% of total sales)	56%	68%	______	67%	72%	______
Gross profit (% of total sales)	33%	34%	______	26%	27%	______
Total operating expenses (% of total sales)	22%	21%	______	22%	25%	______
Net profit before tax (% of total sales)	5.00%	6.49%	______	5.95%	5.00%	______
Net profit after tax (% of total sales)	3.33%	3.80%	______	3.17%	2.40%	______
ROI (return on net worth)	19.0%	18.1%	______	18.8%	16.3%	______
Sales per employee ($000)	$150.0	$116.0	______	$135.5	$119.1	______
Gross profit per employee ($000)	$50.0	$50.4	______	$34.6	$32.6	______
Monthly inventory value ($000)	$375.0	$319.4	______	$316.2	$270.8	______
Receivables value as of Dec. 31 ($000)	$277.8	$281.3	______	$239.3	$238.5	______
No. of days outstanding at Dec. 31	41.7	42.9	______	45.8	46.3	______
No. of invoices billed (000)	9.2	10.0	______	11.0	8.6	______
No. of lines of billing per invoice	4.3	4.3	______	4.0	3.5	______
- - - - - - -						
No. of employees	20.0	18.2	______	16.6	16.3	______
No. of outside salesmen	4.2	3.9	______	3.7	3.6	______
No. of inside (phone and counter) salesmen	4.4	4.1	______	4.6	[illegible]	______
Warehouse sq ft (000, including branches)	14.4	13.3	______	12.6	11.1	______
No. of branch locations (avg.)	1.2	1.2	______	1.2	1.2	______
Total compensation ($000)	$475.0	$450.0	______	$281.3	$225.0	______

All figures are medians, except where averages are specified.

Industrial Distribution

July 1980

Hotline:
Recession plans unveiled as distributors confront downturn

7/21/80 C6185-2 U

The elusive competitive edge

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Indicators...

Sales of industrial supplies and equipment rebounded in April following March's 2.4% decline, according to the *NIDA-SIDA Industrial Distribution Index*. Sales nationally were up 6.9 points (2.6%) over March and nearly the same amount (6.5 points, 2.4%) over year-before levels. The April reading was actually 11.5 points below dollar volume of last August, the high point of 1979. Product inflation also increased in April, according to the *NIDA-SIDA Inflation Index*. The latest rise put the index 2.1% over March, 12.6% over April 1979 and 82% over April 1974. Regional sales, comparing April to month-before and year-before levels, were: east, 261.1, up 1.8% and 14%; midwest, 260.3, up 3.1% and down 2.1%; west, 334.9, up 1.7% and 19.6%; south, 281.6, up 2.8% and down 3.5%. . .The *ASMMA New Order Index* stood at 221.4 in April, down 3.7 points (1.6%) from March and 42.1 points (16%) from April 1979. The latest listing was the seventh consecutive decline for the *NOI*. . .The *FRB Durable Manufactures Index* was at 139.4 in March, down 3.9 points. . .The *SIDA Monthly Sales Trend Report* showed a 0.65% decline for April. Worst hit was area III (Ala., Ky., Miss., Tenn.), down 5.8%. There was a 3.3% increase compared to the year-before level, but area IV (Ark., La., Okla., Tex.) posted a 7.6% decline for that period. . .The National Wholesale Hardware Assn.'s *Wholesale Hardware Index* had an April reading of 200.7, 0.7 points above March's. The index had an increase of 14.1% (24.8 points) over April 1979. . .The *Welding Supply Index* of the National Welding Supply Assn. reached a record level of 151.5 in April, up 5.5 points (3.7%) from March and 23.4 points (18.3%) from April 1979. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors dropped 5% (6.9 points) to 131.0 in April. The index was 8.1% below its April 1979 listing of 142.5. . . New factory orders dropped 5.5% in April, according to the Commerce Dept. It was the biggest decline since December 1974. . . Wages were up 9.1% at the end of the first quarter, compared to the year-earlier period. □

April sales took a fall

Distributor sales growth was flat in April, according to *Regional Report* respondents.

With the exception of a few areas, March-to-April results were posted in the minus column, although comparisons of April-to-April and the year-to-date figures indicate that the recession hadn't yet hit with full impact.

Once a downturn is definitely under way, efforts to pinpoint its start may seem academic. That, however, is not the case. According to the National Bureau of Economic Research, the average span from peak to trough of the last six recessions has been slightly less than 12 months.

And, according to the same source, this recession had its start in January. Does this mean the downturn could hit bottom as early as January 1981?

The bureau, a nonprofit research group widely respected for its analyses of business cycles, discreetly declined to speculate on the potential length or severity of this downturn.

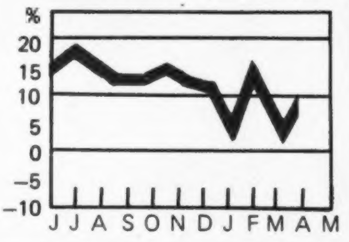
It's clear that flat or negative sales growth will be the rule for at least the balance of the year, however.

Our respondents posted an average 12% increase in December-to-January sales; in February that figure dropped to 3%; in March it was 6%; in April, -1%.□

Receivables*	April 1980 Gen.	April 1980 Spec.	April 1979 Gen.	April 1979 Spec.
New England	41.6	44.8	44.3	39.8
Middle Atlantic	40.5	42.5	38.8	40.5
South Atlantic	36.8	40.9	37.6	37.2
East North Central	38.2	42.5	37.4	38.3
East South Central	38.9	42.0	38.0	41.1
West North Central	38.6	36.7	38.4	38.0
West South Central	37.5	40.9	36.9	37.1
Mountain	39.3	45.7	39.3	42.7
Pacific	35.2	41.6	35.8	41.3
National	38.5	42.0	38.5	39.6

*Average days outstanding

% changes in sales when compared with same month in previous year



The overall sales level held at 10% above last April's, but the trend was downward...

SALES BY REGIONS (% change)	Apr. '80 vs. Mar. '80 Gen.	Spec.	Both	Apr. '80 vs. Apr. '79 Gen.	Spec.	Both	4 mos. '80 vs. 4 mos. '79 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	4	−5	−1	13	21	17	12	19	15
Connecticut	−7	−8	−7	14	24	14	17	18	17
Massachusetts	8	−4	3	16	18	17	18	17	18
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−1	−5	−3	15	18	17	7	15	11
New York Metropolitan Area	−1	−11	−7	17	20	19	14	15	15
Upstate New York	−9	−4	−7	14	14	14	10	13	12
Pennsylvania	3	7	4	14	20	16	4	20	9
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	3	−4	−1	18	12	16	17	16	17
Georgia-Florida	3	−5	−2	4	15	11	14	18	16
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−2	−3	−2	8	1	5	3	8	5
Indiana	11	−5	3	16	−15	1	5	3	4
Wisconsin	5	1	3	20	19	19	23	16	20
Chicago	−12	−6	−10	6	−7	2	10	10	10
Michigan	−1	−1	−1	2	16	9	−5	8	2
Ohio	−5	−5	−5	5	−12	−4	3	2	3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	1	−21	−10	6	2	4	4	8	6
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	11	−7	−1	5	3	4	2	8	6
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	3	−3	−1	14	−10	−2	15	−12	−3
Texas	−1	−5	−4	4	−21	−13	13	−22	−10
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	9	9	9	27	14	19	20	15	17
PACIFIC: Calif., Ore., Wash.	−1	12	6	16	16	16	14	5	11
L.A.-San Diego	−11	2	−5	2	19	11	7	3	5
Oregon-Washington	2	16	10	21	15	18	16	6	10
U.S. TOTALS	1	−2	−1	12	9	10	11	9	10

A 32-commodity inflation index and...

How to save taxes on slow movers

Now that IRS has forbidden write-downs below vendors' price unless the price has been reduced or the product scrapped, the need is greater than ever to find a valid way to value slow movers to minimize their value for IRS tax purposes. A simple procedure including use of a 32-commodity table offers distributors an option.

On February 8, IRS published new procedures for inventory valuation which make it illegal to write down slow moving inventory below vendor cost, unless you have scrapped the material or have based the value for tax purposes on a reduced selling price less only the direct costs of disposal. These new procedures now spell out for every distributor, accountant and IRS field agent what has always been the position of the national office of IRS, but hitherto was rarely enforced by agents in the field. The new rules are designed to implement a decision by the Supreme Court (in January 1979) applying to excess stock, and a decision of the Tax Court of the United States (in May 1979) holding that the fact that some excess stock is considered obsolete by taxpayers does not exempt it from valuation by Supreme Court rules.

These new rules invalidate methods of writing down slow movers which have been used by distributors for decades. They apply to all fiscal years ending after Dec. 25, 1979, thus apply to inventory valuations taken Dec. 31, 1979, even though you may have completed them before the new rules were announced. If you find this incredible, ask your accountant.

The new IRS rules are *Revenue Procedure 80-5* and *Revenue Ruling 80-60.* The Supreme Court decision was in *Thor Power Tool Co.*, in which the Supreme Court backed IRS to the hilt. The Tax Court decision was in *Will Burt Co.*, which applied to parts for obsolete coal stokers. The reduced valuation was not accepted for tax purposes because it was not based on a reduction of selling prices as required by IRS regulations in effect since 1922, but which were rarely enforced. The new IRS rulings thus remove the sole significant advantage of FIFO (lower of cost or market valuation) over LIFO (last in, first out, understood as "not tax on inventory inflation").

In view of the interpretations by the Supreme Court in *Thor* and the Tax Court in *Will Burt*, the outlook for relief through further court action is dim, but in our judgment should be pursued, as the write-downs taken by distributors are different from the kind involved in the Thor case. The industry has been lax in not heeding the warning signs and in not attempting to get relief through Congress.

Legislative relief will be difficult to get and the process could take years. What do you do meantime? You either disobey the law and risk the consequences or seek valid ways of minimizing the tax impact of compliance. There are ways to minimize the tax impact of compliance.

How to value slow movers.

Under FIFO you are allowed to value your inventory at vendor cost, or at vendor market cost, whichever is lower. Market cost means replacement cost. In this period of inflation, except in industries like electronics (where costs seem still to be decreasing), slow movers should be valued at actual vendor cost, not at replacement cost, unless you have a definite reason for thinking replacement cost is lower.

Taxpayers on FIFO (lower of cost or market) are not permitted to use an average cost. Where they cannot identify items with specific invoices, they are supposed to use the latest cost. But on normal stock, distributors with thousands of items may find it too costly to post their costs on every purchase in some permanent record. Suppose you are getting about four turns on your inventory. An IRS agent is not likely to make an issue of it if you value your normal stock at the price sheet in effect September 30, three months before the end of your fiscal year, if that is the calendar year.

But on slow movers, particularly if you are restoring them from write-downs by methods now outlawed by IRS, it would pay to try to identify actual cost. The most accurate way to do so would be to identify the latest invoice on which you bought the item, going back to earlier invoices where the quantity on hand exceeds the last quantity purchased. But if this is too much work, go by the latest invoice you can find. In this period of high and protracted inflation, going back to actual cost may bring your valuation of slow movers back to its value by the methods now outlawed by the courts and IRS.

But for many distributors, it would be costly or even impossible to identify invoices on many slow movers which may not have been purchased for years. If you have perpetual inventory or receipt records to back you up, it is better to use them to approximate actual cost than to use a current (market) vendor price which is obviously far higher than the price at which you bought the material. There are actual cases where IRS has compelled a restoration of write-downs by methods deemed invalid by IRS, then has compromised by restoring them to a level a substantial percentage below market cost. But in many cases, the distributor settled for a percentage far higher than was justified by his records.

First, let me point out that going back to actual cost is not valid for only FIFO users. It is also the preferred basis for distributors when converting to LIFO. The IRS regulation dealing with the unit cost to be used in converting from FIFO to LIFO seems sufficiently flexible to permit going back to original invoice cost on slow-movers, or using current cost from vendor price sheets, if this was your customary valuation method on FIFO just before converting to LIFO. But you must restore all write-downs to a now-invalid market value below cost. Hence, it is our view, supported by conversations with other inventory valuation specialists, that whether FIFO or LIFO is involved, if you can't find old invoices on slow-movers, it is reasonable to seek some other method of establishing original or actual cost.

Valuation without vendor invoices

Where vendor invoices are lacking on slow movers, use the Bureau of Labor Statistics (BLS) indexes for product lines in your inventory to arrive at a valid acceptable estimated original

By **Alan Silver** President
Alan Silver & Associates, Highland Park, N.J.

cost, based on current cost less the inflation revealed by these indexes (see table). You merely work backward, using current vendor price sheets minus inflation. You can go back as far as 1967, the BLS base year when the average yearly index for each product line was 100. It is not worth the effort to attempt to look up indexes before 1967, because the different base year then used could require intricate calculations, and there was too little inflation in those pre-1967 years to justify the effort.

Here's how you go about valuing slow movers where invoices can't be found. Suppose you have a certain hand tool which your records suggest has not been purchased since 1969.

■ **Step 1**—You now have 10 on hand and have been selling them at a rate of about one a year. Perhaps this tool was special-ordered for a customer and canceled, and the vendor representative sweet-talked you out of returning it to the vendor, promising to dispose of the item for you. Thus, in this case, the best available evidence suggests that this hand tool was bought 10 years ago. You have long since discarded vendor invoices that old.

■ **Step 2**—Turn to the table showing the new listing of BLS indexes for 32 industrial commodity groups. Hand tools is number 11 in this table. In December 1979, the BLS index is 256.7. Ten years ago, when you appear to have last purchased it, would be 1969. For 1969 the BLS index is 113.9. Line 2 of this 11th product line reads ".4437." That means that the BLS index in December 1969 is .4437 of the BLS index in December 1979.

■ **Step 3**—Suppose the vendor's current price sheet shows this hand tool cost you $100. Then multiplying this by the factor .4437, you would use $44.37 as the estimated actual cost.

Ten of the 32 product lines on this list (indicated by an asterisk) are the lines used by NIDA/SIDA (National and Southern Industrial Distributors Assns.) to produce their monthly composite index. At the bottom of the ***ID*** listing of industrial indexes, the NIDA/SIDA composite index is shown.

What do you do if you have items which fall in product lines not shown in ***ID***'s product indexes? You have several options. You can use a similar line as a proxy or stand-in. The BLS does this all the time. For example, suppose we show stainless steel tubing, but you have stainless steel pipe, or vice versa. Use the index of the comparable line as a stand-in for the one we don't show.

For those few lines for which you cannot find reasonable comparable lines, you have two further options. You can elect

Index of inflation for 32 key industrial product groups

							MONTH/YEAR						
BLS code	BLS product category		Dec. 1967	Dec. 1968	Dec. 1969	Dec. 1970	Dec. 1971	Dec. 1972	Dec. 1973	Dec. 1974	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
0576-0106	Industrial oil	Multiplier	—	—	—	—	—	—	—	177.6	171.5	168.0	190.9	200.3	275.1
		Index	—	—	—	—	—	—	—	.6455	.6234	.6106	.6939	.7280	
0621	Prepared paint		102.6	106.0	110.1	112.8	115.9	118.2	128.6	161.8	170.2	177.3	185.9	199.1	210.7
			.4869	.5031	.5225	.5354	.5501	.5610	.6103	.7679	.8078	.8415	.8823	.9449	
0713-03	Rubber belts & belting*		103.6	109.7	119.1	129.5	135.0	138.5	144.4	165.8	176.9	196.3	207.5	217.7	238.1
			.4351	.4607	.5002	.5439	.5670	.5817	.6065	.6963	.7430	.8244	.8715	.9143	
0713-04	Other misc. rubber products		103.1	105.4	110.9	116.2	118.3	119.7	124.8	148.6	155.7	169.9	176.5	189.9	216.2
			.4769	.4875	.5130	.5375	.5472	.5537	.5772	.6873	.7202	.7858	.8164	.8784	
0721	Plastic construction products		—	—	100.0	95.2	93.8	93.3	94.8	132.3	121.0	129.4	134.7	137.3	148.3
					.6743	.6419	.6325	.6291	.6392	.8921	.8159	.8726	.9083	.9258	
1013-02	Finished steel products		100.8	103.0	110.0	123.8	128.0	130.2	132.4	192.0	206.6	219.7	236.6	261.1	288.5
			.3494	.3570	.3813	.4291	.4437	.4513	.4593	.6655	.6968	.7615	.8201	.9050	
1026	Wire & cable		100.6	96.8	118.3	120.7	116.1	116.2	133.3	173.4	146.7	150.7	151.0	161.9	203.0
			.4955	.4769	.5828	.5945	.5720	.5724	.6567	.8541	.7228	.7424	.7438	.7975	
1026-01	Copper wire & cable		—	—	100.0	119.1	114.7	114.8	134.6	172.9	142.3	145.7	145.5	155.2	157.1
					.5073	.6043	.5819	.5824	.6830	.8772	.7220	.7392	.7382	.7874	
1026-02	Aluminum wire & cable		—	—	100.0	107.0	110.1	110.7	104.3	153.1	161.0	168.4	174.9	186.6	219.6
					.4553	.4862	.5014	.5071	.4759	.6972	.7331	.7669	.7964	.8496	
1041-01	Builders hardware		101.2	103.1	107.8	126.2	117.7	121.5	127.5	156.3	159.1	169.2	178.9	195.7	215.6
			.4694	.4782	.5000	.5853	.5460	.5635	.5913	.7258	.7380	.7848	.8297	.9077	
1042	Hand tools*		102.2	107.0	113.9	119.8	125.3	130.1	137.0	170.3	185.7	196.5	210.2	231.4	256.7
			.3981	.4169	.4437	.4667	.4881	.5069	.5337	.6638	.7234	.7654	.8189	.9014	
108	Misc. metal products*		100.4	103.9	109.3	127.7	120.9	124.8	134.7	176.7	182.8	191.1	202.6	221.1	239.9
			.4185	.4331	.4556	.5323	.5040	.5202	.5615	.7366	.7620	.7966	.8445	.9216	
1074-0195	Fabricated steel pipe & fittings		103.7	110.2	117.5	127.7	137.1	137.1	149.7	210.6	230.9	241.2	249.9	277.2	297.8
			.3482	.3700	.3946	.4288	.4604	.4604	.5026	.7072	.7753	.8099	.8391	.9309	
1081	Bolts, nuts, screws & rivets (fasteners)*		101.1	109.4	117.9	125.1	126.2	132.2	142.8	198.8	200.2	200.5	205.6	220.3	240.1
			.4210	.4556	.4910	.5215	.5250	.5506	.5941	.8280	.8339	.8350	.8565	.9176	
1132	Power-driven hand tools*		101.4	104.6	112.6	118.9	117.3	117.5	117.5	138.0	139.8	145.7	154.8	166.3	180.3
			.5624	.5801	.6245	.6594	.6505	.6517	.6517	.7654	.7753	.8080	.8586	.9223	
1133	Welding machines & equip.		100.8	102.4	108.6	119.1	116.8	121.8	128.7	182.5	186.6	187.8	201.7	214.6	231.5
			.4354	.4423	.4691	.5144	.5045	.5216	.5560	.7883	.8060	.8190	.8702	.9270	
1135	Cutting tools/ acces.*		101.8	105.3	110.9	114.9	120.6	124.1	127.6	156.5	170.0	185.4	198.3	212.7	233.6
			.4368	.4508	.4747	.4919	.5063	.5313	.5462	.6699	.7277	.7937	.8489	.9105	

From BLS December *Producers Price Index* for years shown

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to use the NIDA/SIDA composite index as the most reasonable basis for arriving at original cost. Or to find if the BLS has an index on your product line, write or call Alan Silver, 168 Woodbridge Ave., Highland Park, N.J. 08904. (Tel. 201 572-2300).

IRS' view

After an extensive examination, which includes checking with other inventory valuation specialists, I must concede that there is nothing in IRS regulations or revenue rulings which says that you may use the method I suggest when invoices are no longer available. But there are some court cases which suggest to us that it is reasonable to use the method we suggest here when invoices can't be found, with the agreement of your tax adviser. Other specialists share this view. But specialists for large national accounting firms, while they have the resources to do so, rarely take up such matters with IRS. It is difficult to get the national office of IRS to give you a favorable private ruling, particularly nowadays when under the *Freedom of Information Act* the ruling must be published. If an IRS staffer slips and opens up a tax loophole, his career with IRS could be tarnished for the rest of his life. So most specialists in a matter like this would make recommendations, but point out that it is impossible to give an absolute guarantee that no agent will find fault. Regard this as a bridge to be crossed when reached. To use the current cost on a slow mover bought years ago is to insure that you are using a cost far above what you actually paid for it. Thus, there seems nothing to lose, but a lot to gain, by attempting by the most reasonable available method to approximate actual cost.

A distributor who uses the documentation outlined here will be challenged if the use of BLS indexes is limited to cases where vendor invoices are not available to establish original cost. But for valuation of your normal stock, if you are on LIFO, use of outside indexes to establish the inflation rate is forbidden by a revenue ruling. Except for department stores where a special provision was made by IRS, you must compile an index of inflation based on your own operation.

The 10-year spread

The restoration of write-downs invalidated by the Supreme Court decision in Thor can be a very expensive proposition for distributors who had accumulated large write-offs, even if restoration is made to actual cost, rather than to replacement

(Bureau of Labor Statistics - BLS Average 1967 = 100)

BLS index multiplier

			MONTH/YEAR												
BLS code	BLS product category		Dec. 1967	Dec. 1968	Dec. 1969	Dec. 1970	Dec. 1971	Dec. 1972	Dec. 1973	Dec. 1974	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
1135-02	Precision measuring tools	Multiplier	100.8	103.3	105.0	135.8	109.1	110.2	114.0	129.2	140.7	144.4	155.8	172.9	190.9
		Index	.5280	.5405	.5500	.7113	.5765	.5772	.5971	.6768	.7370	.7564	.8161	.9058	
1136	Abrasive products*		101.8	106.3	110.9	114.9	120.6	124.1	127.6	156.5	170.0	185.4	198.3	212.7	233.6
			.4356	.4507	.4717	.4918	.5162	.5312	.5462	.6700	.7277	.7937	.8489	.9105	
1137	Metal cutting machine tools		—	—	—	—	100.0	121.5	133.9	167.2	184.4	197.6	217.0	247.6	238.2
							.3470	.4215	.4646	.5801	.6399	.6856	.7530	.8670	
1138	Metal forming machine tools		—	—	—	—	100.0	126.7	138.1	180.3	202.8	217.6	242.6	282.3	318.1
							.3143	.3983	.4341	.5669	.6375	.6840	.7626	.8874	
1141	Pumps, compressors & equip.		102.9	105.4	112.4	150.5	122.2	124.8	131.7	179.5	191.1	208.5	218.3	236.1	259.1
			.3971	.4067	.4338	.5305	.4716	.4816	.5082	.6822	.7376	.8047	.8435	.9112	
1143	Fluid power equip.		—	—	—	100.0	102.7	105.0	107.8	129.6	139.6	147.4	157.3	168.1	184.5
						.5420	.5566	.5691	.5824	.7024	.7566	.7989	.8525	.9111	
1144	Industrial material handling equip.*		101.4	106.2	111.5	117.0	121.2	123.7	129.8	159.4	176.1	189.0	201.7	220.5	240.6
			.4214	.4413	.4634	.4862	.5037	.5141	.5394	.6625	.7319	.7855	.8383	.9164	
1145	Mechanical power transmission equip.*		101.0	104.3	110.4	119.0	121.0	126.9	133.0	166.6	177.8	189.7	204.1	221.8	245.8
			.4109	.4255	.4491	.4841	.4922	.5162	.5411	.6777	.7233	.7717	.8303	.9024	
1149-01	Valves & fittings*		101.0	103.0	108.7	114.9	120.4	121.4	132.6	188.5	202.4	208.5	220.0	241.8	263.4
			.3763	.3837	.4049	.4280	.4485	.4523	.4940	.7015	.7540	.7768	.8196	.9008	
1149-05	Ball & roller bearings		100.1	102.4	107.0	95.4	115.3	132.9	123.4	159.9	168.4	183.1	196.2	213.2	239.7
			.4211	.4307	.4501	.4083	.4850	.5591	.5191	.6726	.7084	.7702	.8254	.8969	
1149-06	Plain bearings		100.1	105.6	118.8	169.3	124.3	130.8	164.2	182.0	187.6	180.4	196.9	232.3	248.9
			.4021	.4242	.4773	.6301	.4993	.5255	.6597	.7312	.7539	.7247	.7910	.9333	
1171	Wiring devices		100.7	106.1	112.2	135.7	122.6	124.7	131.9	177.5	187.5	194.5	205.9	227.6	257.0
			.3918	.4128	.4365	.5280	.4770	.4852	.5132	.6906	.7295	.7568	.8011	.8856	
1172-01	Electrical Instruments		105.1	107.5	114.4	121.1	126.0	128.4	130.0	151.1	162.8	169.2	178.3	186.7	191.5
			.5488	.5613	.5973	.6323	.6579	.6704	.6793	.7890	.8501	.8835	.9310	.9749	
1173-01	Electric motors		101.9	103.5	110.8	99.5	115.9	120.3	128.4	162.6	172.3	184.9	198.0	218.7	236.8
			.4303	.4368	.4679	.4200	.4874	.5080	.5422	.6866	.7276	.7787	.8361	.9236	
1173-02	Generators & generator sets		101.2	105.1	113.1	120.2	126.3	129.0	133.0	164.9	192.1	208.1	223.7	232.9	252.6
			.4006	.4160	.4477	.4750	.5000	.5106	.5265	.6528	.7604	.8238	.8855	.9220	
	*From NIDA/SIDA Index: a composite		101.4	106.4	112.6	117.6	120.3	124.0	129.4	162.9	172.9	183.7	196.8	213.8	235.0
			.4315	.4526	.4791	.5004	.5119	.5277	.5506	.6932	.7357	.7817	.8374	.9098	

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cost. In effect, the restoration becomes additional income in the year it takes place. But this income was not earned in that year. The write-downs which are the basis of this additional income were usually accumulated over a number of years. IRS has conceded that where that is the case, the taxpayer is entitled to spread the payment of this additional income over twice the number of years involved, but (in *Revenue Procedure 80-5*) not to exceed 10 years. No interest is charged, which is a good deal in this era of high interest rates. If you are thinking of invoking this "spread" of up to 10 years, you and your accountant should read the provisions of *Revenue Procedure 80-5* and *Revenue Ruling 80-60* carefully and possibly consult an inventory valuation specialist.

While at first glance the 10-year spread may seem to be a bonanza for any distributor or manufacturer who has to make substantial restorations, beware of Greeks bearing gifts! *Rev. Proc. 80-5* says unequivocally that if you take the "10-year spread" and go on LIFO then or later, you must pay up any outstanding balance of the 10-year spread when you elect LIFO.

Ordinarily, we are against taking the 10-year spread and continuing to use the FIFO method of valuation rates. The extra taxes you must pay, as compared to avoiding the 10-year spread and going on LIFO, are usually horrendous. (Feasibility studies suggest it is best to go on LIFO and to restore write-downs without the 10-year spread.)

Summary

With the new IRS rulings forbidding distributors to write down inventory below vendor cost, there are no longer any significant advantages of FIFO (lower of cost or market) over LIFO (last in, first out). Therefore, all distributors would do well to study the feasibility of restoring their write-downs to actual or original cost—not replacement cost, and going on LIFO. (***ID:*** May 1980.) Where invoices are lacking, it should be acceptable to use BLS indexes, such as the new ***ID*** index, to arrive at actual cost. While you can spread the extra income from such restoration over as many as 10 years if you remain on FIFO, but cannot spread the income on LIFO, the benefits of LIFO are likely to be much greater, making it the better choice.□

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Industrial Distribution

August 1980

Hotline:
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distributors
deferring
payables

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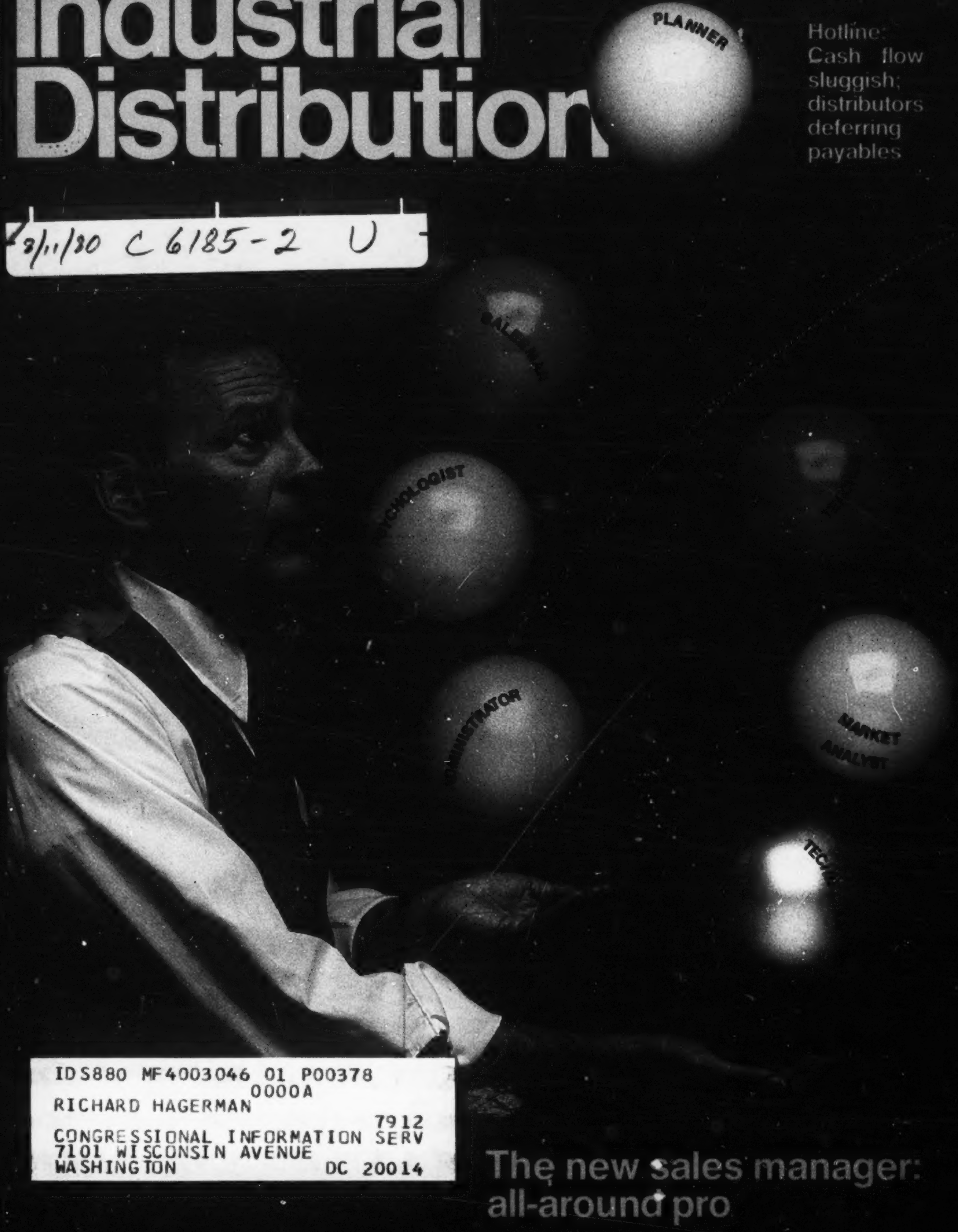
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August 1980
Vol. 70, No. 8/70th year
A Morgan-Grampian publication

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Indicators...

Sales of industrial supplies and equipment declined slightly in May, according to the *NIDA-SIDA Industrial Distribution Index*. Sales nationally were at 138.7, down 2 points (1.4%) from April and up 8.3 points (6.4%) from May 1979. (The index now uses 1977 as its base year, rather than 1967. For more information on the switch, see related news story on page 14.) The *NIDA-SIDA Inflation Index*, which now also uses 1977 as a base year, was at 130.6 in May, up 1.1 points (0.85%) from April and 14.9 points (12.9%) over the year-before figure. Regional sales, comparing May to month-before and year-before levels, were: east, 150.0, down 1.5% and up 11.2%; midwest, 125.4, down 2.9% and 0.9%; west, 165.7, down 1.9% and up 8.4%; south, 140.5, up 2.9 and 19.1%...The *ASMMA New Order Index* stood at 206.4 in May, down 15 points (6.8%) from April and 55.5 points (21.2%) from May 1979. It was the NOI's lowest reading since October 1977...The *FRB Durable Manufactures Index* was at 135.0 in May, down 3.9 points from April...The *SIDA Monthly Sales Trend Report* had a 2.0% drop in April-to-May sales and a 5.6% decline in May 1979-to-May 1980 sales. Sales in the first five months of 1980 to the same period in 1979 had only a 0.54% improvement...The National Welding Supply Assn.'s *Welding Supply Index* dropped 7.4% in May, from 151.5 to 140.2. That reading was only 0.4 points above the year-before level...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors slipped 10 points (7.6%) in May, to 121, 5.9 points (4.6%) below May 1979...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 3.4 points (1.7%) below April and 3 points below May 1979...Production and new orders dropped again in June, according to the National Assn. of Purchasing Management's *Business Survey Report*. The PA's were pessimistic: 58% reported a marked decline in orders, the greatest number in the history of the report, while the number reporting lower production was exceeded only by the May survey's total, which was the largest since World War II. Also, respondents are cutting back on inventory: 13% reported hand-to-mouth buying, up 4%, for production materials, with 39% in that category for MRO, up 5%...Business inventories declined in May for the first time in more than four years, according to the Commerce Dept. The 0.1% overall drop included a decline of 0.4% in wholesalers' inventory. That category recorded a 1.1% increase in April. □

May sales hit by recession

The five-month-old recession took its first big bite out of distributor sales during May, according to *Regional Report* respondents.

General liners appeared to be worst hit—7% below April levels and 5% under year-before levels—but specialists, down a total of 1% in either period, also felt the pinch.

Distributors weren't the only ones to record steep drops in May business activity. Respondents to the National Assn. of Purchasing Management's *Business Survey Report* cited a worse decline in orders during May than at any time in the last 30 years.

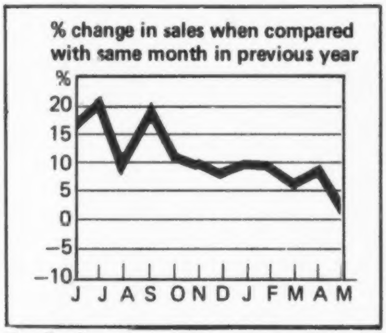
New factory orders fell for the fourth consecutive month, according to the Commerce Dept. May's 2.6% decline was less than half of April's precipitous 5.9% drop. A parallel was found in Commerce's index of leading indicators: down 2.4% in May, 4.1% in April. Business inventories dropped 0.1% in May, however, for the first time in more than four years.

In all, the decline shown in the first five months of the year seemed to conform to a predicted "V" pattern—very rapid and sharp, without levelling plateaus.

Of course, it remains to be seen whether the complete pattern—rapid improvement—is coming. If it isn't, 1980 could become a year of negative sales growth. □

Receivables*	May 1980 Gen.	May 1980 Spec.	May 1979 Gen.	May 1979 Spec.
New England	43.8	39.7	39.9	41.0
Middle Atlantic	39.1	44.4	38.2	44.3
South Atlantic	37.6	37.6	38.8	35.6
East North Central	40.7	39.9	39.5	37.5
East South Central	43.3	38.7	40.5	39.8
West North Central	40.8	39.5	39.9	42.4
West South Central	36.9	38.9	37.2	39.8
Mountain	40.8	43.8	40.2	42.1
Pacific	37.6	40.9	37.1	41.3
National	40.1	40.4	39.0	40.4

*Average days outstanding



For the first time this year, sales were below the level of year-earlier period...

SALES BY REGIONS (% change)	May '80 vs. Apr. '80 Gen.	May '80 vs. Apr. '80 Spec.	May '80 vs. Apr. '80 Both	May '80 vs. May '79 Gen.	May '80 vs. May '79 Spec.	May '80 vs. May '79 Both	5 mos. '80 vs. 5 mos. '79 Gen.	5 mos. '80 vs. 5 mos. '79 Spec.	5 mos. '80 vs. 5 mos. '79 Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	−9	−3	−7	−6	3	−3	10	17	13
Connecticut	−17	5	−6	−11	23	6	16	18	17
Massachusetts	−5	9	−1	−6	−9	7	7	14	9
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−7	−1	−4	1	−1	−1	8	15	12
New York Metropolitan Area	−5	8	1	1	8	4	13	25	18
Upstate New York	−4	−1	−3	4	−4	1	13	8	11
Pennsylvania	−10	−8	−9	−2	−5	−4	3	11	7
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−3	−1	−2	−3	2	−1	10	13	12
Georgia-Florida	−4	1	−2	2	2	2	16	15	16
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−5	−2	−4	−8	−5	−7	3	2	3
Indiana	−9	−2	−6	−15	−10	−13	1	−3	−1
Wisconsin	−10	−3	−7	−5	−3	−4	13	6	9
Chicago	5	14	9	6	−3	2	7	5	6
Michigan	−13	−18	−16	−17	−4	−11	−1	1	0
Ohio	1	−3	−1	−9	−6	−8	−4	1	−3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−13	−11	−12	−9	−17	−12	5	−3	2
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	−12	11	−2	−26	7	−6	−6	8	2
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−9	4	3	1	12	6	13	1	8
Texas	−7	2	−3	4	8	6	15	−6	5
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−11	−8	−10	1	2	1	14	10	12
PACIFIC: Calif., Ore., Wash.	−4	−6	−5	−5	−11	−8	6	−1	3
L.A.-San Diego	1	−1	1	−12	−16	−14	4	−2	2
Oregon-Washington	−6	−9	−8	−2	−7	−5	7	1	4
U.S. TOTALS	−7	−1	−4	−5	−1	−3	8	7	7

Industrial Distribution

September 1980

Hotline: Distributors see no trend despite price-fixing suits

Compensation update: 1980...

Industrial Distribution

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ASMMA polls show California tops Texas for first place in 1979 sales

CLEVELAND—California emerged as the leading state for distributor sales during 1979, according to a survey by the American Supply & Machinery Manufacturers' Assn. In edging out Texas, California returned to the position it held for the first half of the 1970's in ASMMA's *Sales Through Industrial Distributors Survey*.

The survey, which had 162 respondents, ranks volume of industrial supplies sold through distributors by city, county, state and region and product category. While year-to-year changes are rarely dramatic, they point to some trends.

For instance, California's pre-eminent position in per-state industrial sales—8.59% in 1979—is part of a trend that has made the Pacific states (Calif., Wash., Ore., Alaska, Hawaii) a stronger marketplace: 11.967% of total U.S. sales in 1973 to 12.504% in 1979.

The mountain states (N.M., Ariz., Colo., Utah., Nev., Wyo., Mont., Idaho) have also benefited from western expansion. From a base of 3.747% in 1973, their 1979 total was 4.173%.

The west south central states (Ark., La., Okla., Texas) actually had the most impressive 1973-to-1979 growth: from 11.287% to 12.918%.

Even so, it is clear that industrial distribution's traditional stronghold regions—the east north central, mid-Atlantic, New England and south Atlantic—have in no way gone into an absolute decline because of shifts in sales.

The east north central states (Ind., Mich., Ill., Wis., Ohio,) lost 0.862% between 1973 and 1979. But that heavily industrialized region still accounts for 26% of the goods sold by industrial distributors in the U.S.

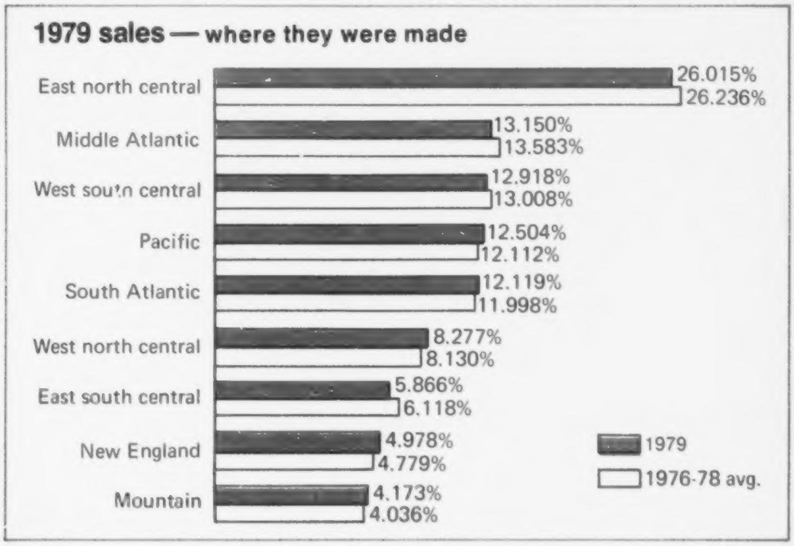
The New England states, down 0.366% in volume during that period, are up 0.199% over their 1976-78 average, for a 4.978% share. The middle Atlantic states (N.Y., N.J., Pa.) had one of the most severe declines in the 1973-to-1979 period, 1.364%, but still have a 13.150% share—second largest behind the east north central region.

The ASMMA poll shows that the south Atlantic region (Del., D.C., Md., Va., W.Va., Fla., Ga., N.C., S.C.) has been unable to pull ahead with the rest of the Sun Belt. While ahead by 0.121% of its 1976-78 average, the region is 0.572% behind its 1973 total. The last of the Sun Belt states (the east south central: Ala., Miss., Ky., Tenn.) have remained almost steady in the 1973-to-1979 period, up 0.049%, to 5.866%.

Finally, the west north central states (Minn., N.D., S.D., Iowa, Neb., Kan., Mo.) had a little more growth: 0.521% since 1973.

Also of interest is ASMMA's complete listing of the 10 leading states for in-

[continued on page 15]



[continued from page 5]

dustrial distribution. In 1979, the California-Texas switch wasn't the only news. New Jersey, which traditionally held no. 10 spot, was ousted by Wisconsin. The remaining top-tenners are, in order: Ohio, Illinois, Pennsylvania, Michigan, New York, Indiana, Missouri.

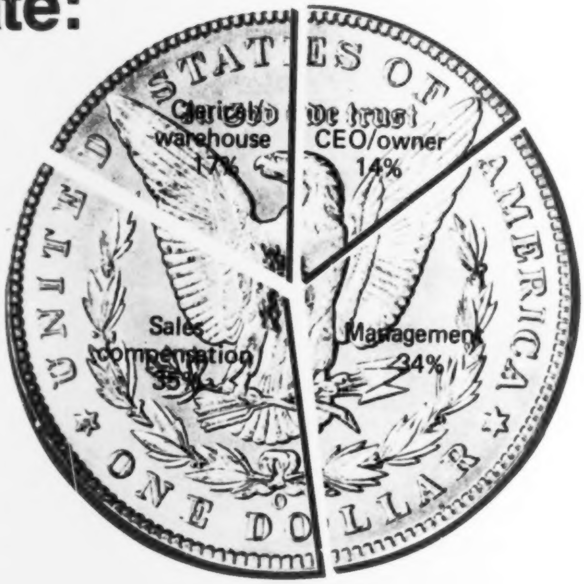
The survey also charts Canadian distributor sales. The results (in percentages) are: Ontario, 40.774, 1979, 44.064, 1976-78 avg.; Quebec, 24.901, 1979, 23.651, 1976-78 avg.; Alberta, 10.952, 1979, 10.610, 1976-78 avg.; British Columbia, including the Yukon Territory, 11.321, 1979, 11.463, 1976-78 avg.; Manitoba, 4.247, 1979, 3.887, 1976-78 avg.; Saskatchewan, 3.074, 1979, 1.994, 1976-78 avg.; New Brunswick, 2.015, 1979, 1.842, 1976-78 avg.; Nova Scotia, 2.108, 1979, 1.688, 1976-78, avg.; Newfoundland, 0.518, 1979, 0.724, 1976-78 avg.; Prince Edward Island, 0.090, 1979, 0.077, 1976-78 avg.

Total U.S. sales volume for 1979 for the 162 reporting companies was $3.6 billion. Canadian volume, for 96 companies, was $214 million.

Copies of the 24-page report, the 28th edition of the survey, are available from ASMMA, 1230 Keith Bldg., Cleveland, Ohio 44115. The per-copy price for nonmembers is $100. The current survey and back reports are available at a number of business-school libraries. □

Compensation Update:

1980



What's new in distribution compensation? Profit sharing is still important, but fewer companies are moving to it. Bonus incentives reach all levels of the typical company. Inside-sales incentives are on the rise, but top dollar still goes to outside sales.

At Company A, Bill is making $37,000 as an outside salesman. It's a respectable income, half salary and half commissions. Not bad, even after 40 years with the company.

At Company B, John is paid $35,000 for the same work, although he has only 15 years' experience. And the risk is smaller, since it's a straight-salary job.

At Company C, Fred is doing very well indeed. With three years' experience on the road, he's pulling in $42,000. He's proven himself quickly; this is a commission-only spot.

Nowhere in industrial distribution is the disparity in compensation wider than in sales. But lack of uniformity is found in pay structures across the industry, for every position.

Obviously, this has much to do with the structure of the industry itself—highly fragmented into general line and many specialties, largely privately held, mostly non-union, and spread across the country in some 15,000-plus locations.

Always in flux, distribution adapts readily to economic conditions, and despite declines and soaring inflation, continues in a growth mode. And one area that moves with the trend is compensation, a reason ***ID*** reports compensation trends at least once annually.

Mobility, retaining good people and keeping them motivated and productive are perennial problems in distribution. Competition within the industry for fast-trackers and experienced pros is as keen as ever. In this report, ***ID*** offers the findings of a nationwide survey to point up what distributors are paying to maintain managers and staffers in 1980.

Compensation, basically, is how management keeps employees as content as possible while contributing to profit through productivity. Profit sharing remains one of the most popular and forceful compensation perks, although our survey indicates that this time-honored strategy may have passed its popularity peak.

Some 65% of respondents had a profit-sharing plan. But that high percentage masks the fact that relatively few firms are newcomers to this area. The average age of the plans is 13 years, with a range of one to 50 years. However, only 27.5% were started in the last five years, while 37.5% are six to 15 years old and 35% are 16 or more years old.

Profit sharing

Is profit sharing effective? Certainly, in many cases. But, comments a Louisiana distributor whose plan produces a monthly check for each employee, the problem arises when workers come to see that as part of their compensation.

"Some workers produce," he said. "They look forward to the money. But some really don't care."

Perhaps part of the reason fewer distributors seem to be turning toward profit sharing is the move within the industry to motivate inside sales personnel with incentive compensation.

That technique, under considerable discussion in distributor circles over the last few years, appears to have quietly made a large impact. Nearly 81% of respondents do offer inside salesmen some sort of extra compensation.

Of course, the amount varies considerably. ***ID***'s poll produced a range of 0.5% of total compensation to an impressive 40%. The average is 11.2%.

Naturally, the type of compensation-enhancer chosen has much to do with the amount gained. The bonus, defined as an overall performance reward, dominated among respondents, with 48% for it. This method is likely to involve the smallest amount of extra compensation.

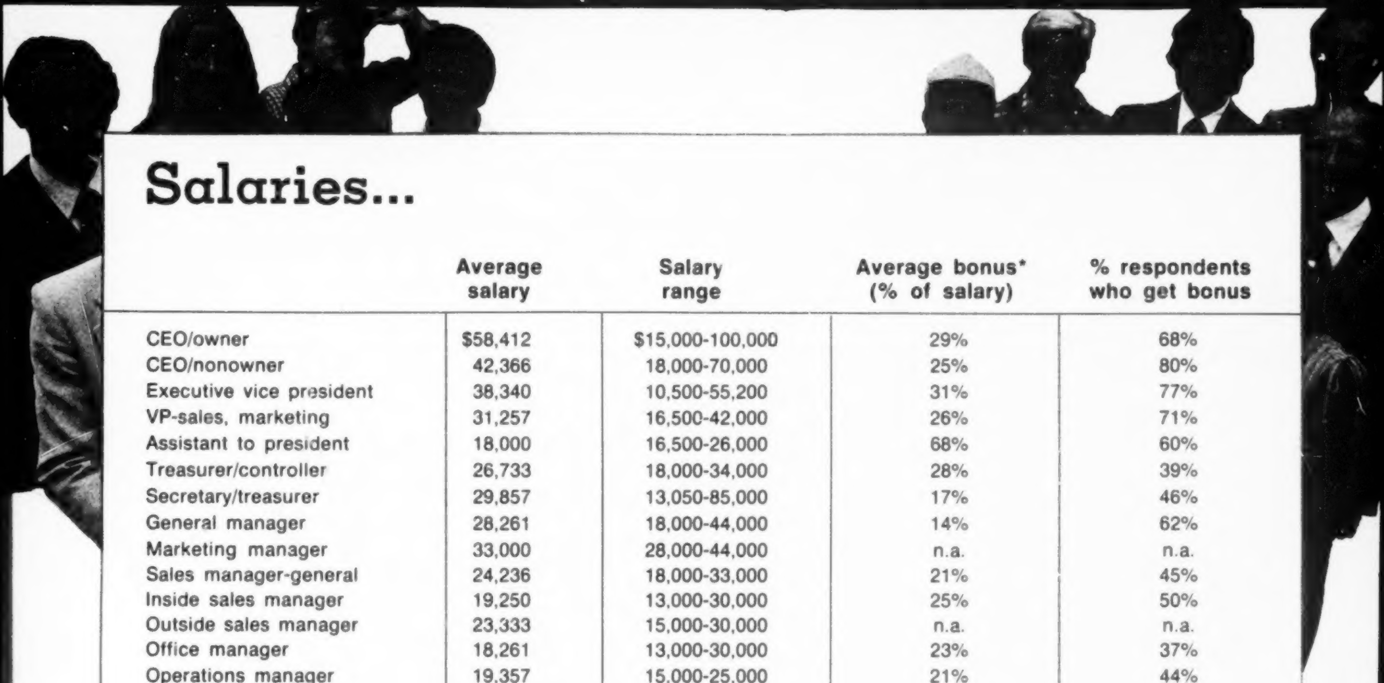
Commissions followed, with 22% opting for this method. Next in line was incentives, with 19%. The balance of responses was in the "other" category and involved percentages of special sales, commissions on written sales, sales contests with outside personnel, commissions on unassigned sales, profit over goals, total profit and incentives based on gross profit margins.

Sales managers have always known the value of incentive compensation in outside sales. Here, as in other studies, salary plus commissions and incentives proved to be the most popular option, with 44%. Straight-salary compensation was tied with "other"—largely bonus-based methods—at 11.8%, while straight-commission plans were registered by a total 32.4%.

While radical moves in outside sales compensation are not likely, one shift within distribution is being felt, according to survey respondents.

Again, productivity is the key word. The idea: Why not link inside salesmen with specific outside personnel? That way, the inside person can take up some of the slack for the outside salesman, particularly with small accounts.

How feasible is it? Some 39% of re-



Salaries...

	Average salary	Salary range	Average bonus* (% of salary)	% respondents who get bonus
CEO/owner	$58,412	$15,000-100,000	29%	68%
CEO/nonowner	42,366	18,000-70,000	25%	80%
Executive vice president	38,340	10,500-55,200	31%	77%
VP-sales, marketing	31,257	16,500-42,000	26%	71%
Assistant to president	18,000	16,500-26,000	68%	60%
Treasurer/controller	26,733	18,000-34,000	28%	39%
Secretary/treasurer	29,857	13,050-85,000	17%	46%
General manager	28,261	18,000-44,000	14%	62%
Marketing manager	33,000	28,000-44,000	n.a.	n.a.
Sales manager-general	24,236	18,000-33,000	21%	45%
Inside sales manager	19,250	13,000-30,000	25%	50%
Outside sales manager	23,333	15,000-30,000	n.a.	n.a.
Office manager	18,261	13,000-30,000	23%	37%
Operations manager	19,357	15,000-25,000	21%	44%
Warehouse manager	16,730	10,000-29,000	13%	45%
Branch manager	23,071	12,000-35,000	22%	47%
Purchasing manager	20,376	12,000-35,000	17%	59%
Purchasing agent	15,488	10,000-24,000	27%	33%
Sales promotion manager/PR	17,221	12,000-25,000	n.a.	n.a.
Data processing manager	17,221	12,000-25,000	12%	42%
Data processing staff	13,757	9800-20,000	12%	33%
Counter sales	12,486	7800-20,000	13%	37%
Bookkeeper	12,612	8000-18,000	9%	40%
Order clerk	11,163	8000-18,000	10%	42%
Order picker	10,487	7500-19,500	9%	35%
Packer	10,706	7280-19,500	n.a.	n.a.
Driver	11,687	8000-24,000	9%	26%
Expediter	10,500	6500-25,200	10%	20%
General clerical	9212	4750-16,000	6%	35%
Engineer	23,712	15,000-30,000	6%	75%
Mechanic	15,469	10,000-21,600	13%	23%

*Bonus may be in form of profit sharing.

Sales compensation...

	Salary	Incentive/ commission	Total compensation	Average years of experience
Most-experienced outside salesman	$36,800	—	$36,800	14.8
	$18,650	$15,450	$34,100	18.6
	—	$49,515	$49,515	16.1
Least-experienced outside salesman	$17,132	—	$17,132	1.4
	$13,920	$4085	$18,005	2.6
	—	$20,241	$20,241	2.8
Most-experienced inside salesman*	$19,132	—	$19,132	10.5
	$18,080	$3660	$21,740	11.9
	—	—	—	—
Least-experienced inside salesman*	$11,200	—	$11,200	2.1
	$11,670	$1690	$13,360	2.0
	—	—	—	—

*Includes counter salesmen.

Findings...

Profit sharing: 65% of respondents have it. Average age of plan is 13 years. 72.5% began plan six or more years ago; 35%, 16 or more years ago.

Average compensation: $617,000, with range of $85,000 to $3.3 million.

1980 compensation: Rose an average of 11.9%, with a range of 0% to 30%. Only 16% of respondents had rises of 7% or less; 57% were up 8% to 12%.

Fringe benefits: Were at 17% of total compensation in 1980, with range of 3% to 32%. The average increase over 1979 costs was 7.7%, with a range of 0% to 22%.

Projected 1981 fringe benefit increase: 7.9%; range, 0% to 30%.

1981 compensation: Average increase forecasted was 11.1%, with a range of 0% to 30%. Expected fringe-benefit hike is 7.9%, with a range of 0-28%.

Salesmen: Average number of outside, 6.7; average inside, 6.1. Range, 2 to 29 outside, 1 to 35 inside.

spondents are giving it a try, indicating that this method is due for a long run.

The tricky question here, of course, is, who gets the commission and is it shared? The answer appears clear: Yes, sharing is fair. The majority of respondents who give inside sales personnel incentive compensation work with splits—nearly 60% mandate shares with other insiders and more than 40% with outsiders.

Despite moves toward incentive compensation for inside personnel, the gap between the money earned by insiders and by outsiders remains large indeed (see salary tables, page 40).

For raises, most respondents seem to pick a number between 8% and 12% and hope that will keep employees happy. With an average compensation bill of $617,000 (a range of $85,000 to $3.3 million), the average 1980 increase was 11.9%, with a range of 0% to 30%.

Rising costs

The number of respondents able to get by with increases of 7% or less was small, 16%. The majority, 57%, fell in the 8-12% category, while 27% were in the 12%-and-up category, although more likely because of new hirings than through rampant violations of President Carter's wage guidelines.

Those figures roughly parallel data put together by the Conference Board, the business study group, on labor costs in manufacturing during 1980.

The Conference Board, in predictions made by its Labor Outlook Panel, said wage and benefit gains this year would likely reach a median of 9.5%, 0.5% above actual levels last year, despite greatly increased unemployment.

The main problem remains inflation. The panel forecast an overall 13% increase in *Consumer Price Index* levels this year, compared to 11.5% last year. The estimate of manufacturing wage-and-benefits gain ran 9% to 12.5%.

As noted, the Conference Board's tally of compensation costs includes fringe benefits, an area of compensation that is being eyed by distributors.

Consultant George Webster notes that 41% of compensation costs of all non-manufacturing firms in the U.S., as of 1977, were tied to fringe benefits.

If the figure seems high, Webster notes, it is because it includes 11% for "time not worked." That term may seem a contradiction: Who's going to pay workers for not working?

That's not the case, observes Webster, since "paid non-work" includes vacations, sick days, personal leave and time off for funerals and jury duty.

"This item is not normally in the employee benefit package," Webster says. "Though you may not think of it this way, paying someone for not working, is a 'fringe benefit.' "

Even without that "fringe benefit," Webster's tally of benefit costs for non-manufacturing concerns comes to 30%. (As he points out, comparable figures are not available for wholesaling and distribution as an industry.)

Yet, judging by the figures received from our respondents, distributors' true benefits costs—and thus their overall expense for compensation—are either far less than the norm or often misstated.

For example, the average respondent said 17% of 1980 costs are the result of fringe benefits. The range for that figure is wide, moving from a low of 3% to a high of 32%.

Even assuming that true fringe-benefit costs are indeed lower in this sampling of distributors, costs are rising. This year's fringes cost an average of 7.7% more than in 1979, with a range of 0% to 22%.

That trend will continue, according to Webster in *Controlling Payroll Costs in Distribution,* a publication of the National Assn. of Wholesaler-Distributors. (Copies, at $26 each, are available by letterhead request from NAW at 1725 K St., N.W., Washington, D.C. 20006.)

Webster breaks fringe benefits into three categories: *legally required,* such as Social Security, unemployment compensation, workmen's compensation; *necessary but not mandated,* such as pensions, medical and life insurance, vacations, sick days; *voluntary,* such as profit sharing, bonuses and other nonwage payments.

As Webster points out, only the first category is mandatory. The other two are what constitute a desirable benefits package designed to keep workers loyal and satisfied.

But the cost of both the mandated and voluntary fringe benefits is rising fast.

"If you don't already know what your benefits cost you on a percent of payroll, have your accountant work it up for you," Webster advises. "Analyze it carefully and set a limit."

Respondents to this survey are already eyeing 1981 compensation costs.

The near-unanimous verdict: Costs are going up again. The average increase expected is 11.1%, with a range of 0% to 30%. The average figure would undoubtedly be lower but for the relatively few companies that forecast increases of 20% and above, again more likely as a result of expansion than greatly increased salaries.

Also for 1981, respondents see an average hike of 7.9% in fringe benefit expenses, with a range of 0% to 28%.

Bonus incentives

Bonuses continue to play an important part in distributor compensation, according to the respondents' figures.

Of course, distribution is a performance-dependent industry. At one extreme, although not undesirably so, is a poll respondent, a CEO, who bases 67% of his compensation on commission and 13% on bonus.

"I believe in personal incentive," he commented, "and that holds true all the way throughout this company. That goes for me, my sons (two top company executives with 87% of compensation from commissions and the balance from bonuses) and anyone else here. The best example is set at the top."

That attitude appears to be shared by many of the respondents to the survey. CEO's who are also company owners had an average salary of $58,412 (with a range of $15,000 to $100,000). Nearly 70% (see table on page 40) also receive a bonus

as part of their compensations, with the average bonus 29%.

Nonowner CEO's trailed in amount of average salaries and bonuses, $42,366 and 25%, but 80% of respondents reported receiving them. (The salary range here was $18,000 to $70,000.)

Other top distributor management also tend to receive bonuses to supplement their salaries. Some 77% of executive vice presidents reported receiving bonuses, for an average of 31% of salary. The average salary here was $31,257, with a range of $10,500 to $55,200.

Obviously, bonuses—and to a lesser extent commissions and profit sharing—are needed to bring the low-end salaries listed for those three positions up to top-management levels.

Interestingly, those performance cash awards may be more widespread than in other industry sectors.

For example, Chicago-based Dartnell Institute of Financial Research publishes a biennial survey of executive compensation. In the 1980 edition, which uses 1979 data, Dartnell researchers used a sample base of 300 companies across nearly 40 industry types.

Only 32% of Dartnell respondents had profit sharing for one or more of the three management levels, top, middle and supervisory. Some 60% of responding companies had bonus plans for management.

ID's respondents reported a 65% rate of profit sharing, with an average of 75% of respondents in the top three management positions receiving bonuses.

It should be emphasized the ***ID***'s sample group does not necessarily represent the entire universe of industrial distribution. Put more plainly, up to 65% of all distributorships do not necessarily participate in profit sharing simply because that figure was reported by our respondents.

Even so, survey findings tend to indicate that extra cash compensation plays an important role in distribution. Bonuses, for example, are reported for most line positions in a typical distributorship (see table on page 40).

Dartnell's breakdown of average earnings for top management in companies with less than $5 million in sales indicates that distributor executives are keeping pace with their counterparts in other industries.

No comparable position exists in the Dartnell survey for CEO's who are also owners. Other figures are: CEO, $44,000; executive vice president, $37,000; vice president-marketing, $36,000; corporate secretary, $26,000.

The sales route

The fast track to the big money in distribution—as well as top management slots—has traditionally been outside sales. That hasn't changed, the survey response demonstrates.

Average figures for each of the three main sales compensation types, for the most experienced salesman in respondent companies, are:

Salary only—Average, $36,800; range, $24,000 (nine years' experience) to $60,000 (25 years' experience).

Salary-plus—Average salary, $18,650; range, $6,000 to $36,000. Incentive-commission average, $15,450; range, $1000 to $50,000. Total compensation average, $34,100.

Incentive-commission-only—Average, $49,515; range, $25,500 (12 years' experience) to $72,000 (35 years' experience).

Naturally, it takes a while to get to the big-bucks category of compensation in sales. Average figures in the three groupings for the least experienced of the respondents' salesmen are:

Salary-only—Average, $17,132; range, $12,000 (one year's experience) to $22,000 (one year's experience).

Salary-plus—Average salary, $13,920; range, $6000 to $25,000. Average incentive-commision, $4085; range, $1000 to $10,000. Total compensation average, $18,005.

Incentive-commision-only—Average, $20,241; range, $5000 (one year's experience) to $30,000 (two years' experience).□

In the field...

How do you keep control of compensation?

Obviously, a distributor can't always give the sort of raises employees would like, even once a year. But too little and too seldom, just as obviously, is a recipe for dissatisfaction and lowered productivity.

"I go to my friends, who are professional consultants, for guidance," said William Willoughby, president of Flagg Industrial Supply Co., New Haven, Conn. Willoughby and some associates took over the general line firm in April, inheriting an established compensation framework.

Trying consultants

"Professional advice in the compensation area, as in any other, is not always right, but it is more often right than not and it's well worth having," Willoughby commented.

Not all distributors have ready access to consultants. Nor would some want to pay the fees these experts charge, although it might be well-spent money for firms with real problems. Most companies settle for association advice.

"Our guidance is largely from association releases," said Herbert C. Conrad, vice president of Conrad & Son Supply Inc., Chicago. "That's helpful," he added, "but of course we couple these with our own judgment and experience and reviews."

The association material is helpful, although not always extensive, because it can aid against insularity. George W. Dunn, president of Seward & Co., Bloomington, Ind., uses the guidelines of the National Industrial Distibutors Assn. as a starting point. The main thing, he emphasized, is avoiding the use of gut feeling as the only yardstick.

"We also work with insurance people to help formulate our insurance programs. We ask for material from the National Assn. of Wholesaler-Distributors. We even work with the business school of Indiana University here in Bloomington. We do a great deal of reading. We are trying, frankly, to avoid making any compensation changes as the result of gut feeling," Dunn said.

Some distributors admit to talking with competitors outside their trade

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areas for compensation figures. Others are leery of the process, afraid of giving away any information that might hurt them.

J. G. Christopher Co., Jacksonville, Fla., has found the happy medium here—a periodic wage survey of noncompetitors in its immediate marketing area.

"I call five or six people in similar small businesses with similar job functions," said president Ronald G. Raymond. "This gives me a pretty good picture of what I should do," considering wage levels and techniques in the Jacksonville area.

Raymond warns against another aspect of gut-feeling compensation:

"We try very hard not to compensate an employee on the ground of what we would like him to be, but on the grounds of what he is. When a guy starts, you have no idea how he's going to perform. Some of the highest-paid employees have been my biggest disappointments. Conversely, some of the lowest paid have been my biggest delights."

Using wage parity

How does Raymond achieve a balance here? By working for "parity" in wages as quickly as possible. "Naturally, we can't chop down the salary of the high-paid guy without inviting him to depart. But we can find ways to increase the salary of a 'sleeper' who is really performing for us," he commented.

More often, distributor compensation is pegged to an average annual figure that keeps everyone moving along at about the same pace. Some may get 7% instead of the overall 8%, while fast-trackers are blessed with 9%. That may be convenient for bookkeeping, but is it the best system?

Seward & Co.'s Dunn is looking for what he describes as a "comprehensive, scientific, mathematical, equitable, judicious compensation policy." While he admits that such a system—particularly one developed in-house without the aid of expensive consultants—may not be easily found, Dunn vows to pursue it.

Basically, the Seward approach is to plan ahead. At the beginning of the fourth quarter, Dunn and the other executives start looking at the next fiscal year's budget for the amount possible for total compensation increases.

By the following May, after a review of financial performance in the previous fiscal year, they begin making final decisions on salaries, etc.

"Then we take a careful look at the individual performance of each employee during the year that has just gone by. Each gets an annual review by management and we have a system to quantify performance," Seward's president revealed.

Rating employees

"Several of us rate the employee numerically on various points, such as productivity, and the ones with the highest number of points will get larger raises than those with the lowest scores," Dunn revealed. "This is a fair, objective way to evaluate how much to give each person. And no matter how much one executive likes or dislikes an employee personally, the raise he gets is fair."

Seward's compensation criteria run to 23 items. Top performance earns 3 points; the bottom, 0. Add up the points and you know where your raise will fall.

A system like that can help a distributor chart productivity in something approaching objective terms, but how can productivity itself be enhanced outside of the annual raise?

Profit sharing is a traditional approach, one that some companies swear by.

Once a year, employees at Hayes Tools Inc., Dayton, Ohio, "get a piece of the pie," according to president Charles W. Hayes.

"Profit sharing should be designed to retain good employees," Hayes commented. "They know that if they produce, they get paid over and above salary. In a sense, they make their own annual salaries, in that they know that the more they produce, the more they are likely to walk off with in what amounts to a bonus."

Not everyone thinks that once a year is enough of a reminder to make profit sharing effective, however.

J. G. Christopher Co. has moved to monthly payments and watched productivity soar, according to president Raymond.

"We had 40 employees doing $1.7 million a year as recently as 1977," said Raymond. "We now have 21 employees doing $3.8 million in sales. We instituted profit sharing, for the first time, on a monthly basis in 1977 and it meant all the difference in the world. We've cut our turnover radically."

The monthly check, paid separate from the salary check, is the key, according to Raymond. "We don't dangle an illusion. We keep on letting the employee know about incentive."

That does bring in a problem, however. With annual profit-sharing payments, the company has time to decide on an equitable amount. On a monthly system, mistakes can be costly.

"Understate your costs and you're in trouble," Raymond revealed. "Everything in profit sharing is based on gross profit. We have to watch price increases and keep our people aware of them so they don't think they're getting short-changed."

Ted Jatho Jr., president of Mechanics Tool & Supply Co., Oakland, Calif., is looking at an incentive payment plan for inside sales personnel as a way to pep up productivity and improve his overall compensation program.

"To establish this for outside sales is easy, because it's self-evident," said Jatho, who is also president of the National Industrial Distributors Assn. "That's not the case with inside sales, however, although they can use incentives as well as outside salesmen."

It comes down to a question of how much and how soon, said Jatho. "There are numbers problems here. I want it to be good for them, but I also want it to be good for the company. I haven't come up with the formula yet, but I'm working on it."

Finally, it is surprising that many successful distributorships are only now working on fringe benefits that are standard in other industries, particularly big business and public employment. Ultimately, it will be to the benefit of distribution to be able to compete with large employers, even if the costs hurt somewhat, to attract good and loyal workers. A review of the fringes offered by companies cited in this article illustrates the point.

Making changes

Health insurance is popular, but the extent of coverage varies. Some pay insurance costs for employees and their families; some don't. One firm pays only 80%; a second gives full medical coverage and free dental insurance.

None of the companies had pension plans. One CEO commented: "We've had many good candidates turn us down when they found we didn't have a retirement program." He's putting one together now. Another firm discontinued an executive-level pension plan and now encourages participation in *Individual Retirement Act* (IRA) set-asides of taxable income as an alternative.□

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Industrial Distribution

October 1980

Hotline:

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Indicators...

Sales of industrial supplies and equipment remained unchanged nationally in July, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 132.2 put the seasonally adjusted, two-month moving average 1.2 points (0.9%) above the year-before level. The *NIDA-SIDA Inflation Index* for July stood at 132.9, up 0.9 points (0.7%) from June and 15.6 points (13.2%) over the year-before figure. Regional sales, comparing July to month-before and year-before levels, were: east, 142.8, up 1.7% and 7%; midwest, 116, down 1.5% and 8%; west, 164.1 up 2.8% and 8.7%; south, 138, up 1.9% and 10.9% ...The *ASMMA New Order Index* stood at 197.5 in July, up 1.9 points (1%) from June but down 63.8 points (24.5%) from July 1979. It was the first NOI's increase since October 1979...The *FRB Durable Manufactures Index* was at 127.5 in July, down 2.4 points. . .The *SIDA Monthly Sales Trend Report* had a 12% drop in June-to-July sales and a 6.2% rise in July 1979 to July 1980 sales. Sales in the first seven months of 1980 compared to the same period in 1979 had a 5.8% improvement. . .The National Welding Supply Assn.'s *Welding Supply Index* dropped 2.6% in July from 139.3 to 136.7. The reading is almost 12% above the year-before level. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors slipped 11.9 points (9.6%) in July to 112, 6.9 points (5.8%) below July 1979 ...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 1.6 points (0.7%) below June and 8.5 points (4.4%) above July 1979. . .The *Business Survey Report* of the National Assn. of Purchasing Management was optimistic in reviewing August figures. Although production declined again, the rate was considerably less than previous months. Purchasing managers remained cautious about orders for production materials, supplies and capital equipment. Some 66% of PA's reported that they are ordering capital equipment six months ahead or longer, down from 69% in July. □

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Cost of a supplier sales call is up —but by how much is the question

NEW YORK—Depending on which authoritative source is quoted, the average cost of a manufacturer's sales call in 1979 rose either 22%, to $71.90, or 42%, to a record-breaking $137.02.

Those conclusions, selected from reports on sales costs for last year by the Dartnell Institute of Business Research, Chicago, and McGraw-Hill Publications Co.'s Laboratory of Advertising Performance (LAP) in New York, illustrate one thing clearly—distributors should not take such figures at face value.

For one thing, neither survey charts the distributor's sales costs, although the LAP study does specifically break down the average cost of a sales call into three categories: direct marketing; indirect marketing through distributors, agents or other dealers, and a combination of both methods. The good news here, as with earlier LAP sales-call reports, is that sales-through-distributors remains the most cost efficient—50.4% less than direct and 13.3% less than in combination-marketing.

One key reason for the divergence in average-cost figures between the Dartnell and LAP studies is probably the sample base used. LAP's was culled from 787 responses to its questionnaire, which was sent to some 30 industrial-manufacturing types.

The respondents, chosen from McGraw-Hill's prospect and customer lists, represent "probably 90% of U.S. manufacturing in this area," according to the company's vice president for research, Dr. David Forsyth, who prepared the report.

To get a rounded picture of sales costs, Forsyth said, LAP includes companies with overseas marketing. Forsyth concedes that this inevitably will drive up overall cost figures. But, he told ***ID***, "if it only included domestic costs it would be very misleading." Occasionally, he said, a respondent reported very high costs, as in the case of a manufacturer of gas turbines with a small sales team. One overseas call cost $3000, but the machine was ticketed at $150,000, he said.

That example, was the highest cost-per-call included in the survey, according to Forsyth, who noted that few were so expensive.

The LAP determined sales costs with this question: "What was your approximate cost per sales call in 1979?" A call was defined as "each time a salesperson makes a face-to-face presentation to one or more buyers or prospects." The breakdown of 1979 costs compared to 1977 costs are:

Direct—$170.80, up $61.26 (55.9%); *indirect* through distributors, dealers or agents—$113.54, up $24.71 (27.8%); *combination*—$128.67, up $34.54 (36.7%). Costs per call ranged between $195.80, up $67.11 (52.2%), for a company with fewer than 10 salesmen to $92.13 (no figures available for 1977) for a company with more than 100 salesmen.

Average costs soared between 1977 and 1979 because the components involved—transportation, lodging, travel and entertainment—were so heavily affected by inflation during that period, Forsyth said. That, he acknowledged, is to the benefit of distributors, with their local base and lower selling costs.

[continued on page 12]

Cost of the 'average' business letter?—$6

CHICAGO—The inexpensive business letter has gone the way of the nickel candy bar, it appears.

The Dartnell Institute of Business Research, Chicago-based study group that concerns itself with these matters, pegs the 1980 cost of an 'average' business letter at $6.07. That, says Dartnell, is the expense incurred in material, mailing and labor to produce a face-to-face dictated missive of approximately 175 words.

Increased salaries for dictator and secretary were tied to the figure. They added 48 cents to the 1979 costs, according to Dartnell.

Interested in cost-cutting in this area? Use dictating equipment. Without factoring in the cost of the machinery itself, the expense falls to $4.53, said Dartnell. □

STAFDA members' poll shows industrial sales rank second in volume

ELM GROVE, WIS.—Industrial customers are the second most important sales group for members of the Specialty Tools & Fasteners Assn., according to a recent STAFDA survey.

Because of the nature of their specialty, STAFDA distributors have traditionally been considered contractor-heavy in their customer mix. Indeed, according to the association's *1980 Distributor Profile Survey*, nearly 68% of respondents' volume is tied to that area.

For the first time, however, the 1980 survey asked members to break down their customer mix, bringing these figures to light: general contractors, 21.3%; industrial customers, 17.9%; electrical contractors, 14.8%; building contractors, 12.9%; plumbing and mechanical contractors, 12.5%; drywall contractors, 6.3%; metal fabricators, 5.4%; utilities, 2.8%; other, 6.1%.

"I was a little surprised by this myself," said executive director Morrie E. Halvorsen. "I would have thought industrial would rank about where plumbing is: 12% or so." Even so, he said, this member profile is probably the most accurate STAFDA has ever compiled. A record 44% of its 385 distributor-members responded to the poll, which covers sales and operations in 1979, a very good business year for members.

"It was an opportune time for this question. Some of these guys are having a tough time with their contractor business. Perhaps this will give them the push to pursue the industrial customer a little more," Halvorsen commented.

The survey is wideranging, covering such areas as sales, employee policies, unions, accounting methods, insurance, computer use, fringe benefits and compensation and volume mix.

"We're very pleased," said Halvorsen. "I think we're at the point where members see the benefit of giving us this information so they'll know where they stand." STAFDA will continue to run its profit performance survey on an annual basis, with the profile report on a biennial basis. "That's often enough to spot any real trends or changes," Halvorsen said.

Other survey highlights are:

Respondents by location: northeast, 10.7%; mid-Atlantic, 11.9%; southern, 8.9%; south-central, 10.7%; midwest, 19.1%; north-central, 12.5%; mountain, 4.2%; northwest, 5.4%; Pacific, 10.7%; Canada, 5.9%.

Number of suppliers: 84.3, average.

Volume mix: sales, 85.8%; service and repair, 6.4%; rental, 5.6%; contract drill

[continued on page 19]

Hajoca Corp. sales and earnings show decline

ARDMORE, PA.—Hajoca Corp.'s sales and earnings declined in the second quarter because of "much weaker" demand for the company's plumbing, heating and industrial supplies inventory.

The publicly held company had sales of $89.9 million in the first six months of 1979, down 3% ($2.4 million) from the same period in 1979. In the second quarter, however, sales dropped 8.5% ($4.2 million) from first-quarter 1979's total of $48.9 million. Net earnings dropped 7% in the first two quarters and 4% in the second quarter.

"Market demand for our products continues much weaker than in 1979 and we expect the company to report negative comparisons with the prior year for at least the next three fiscal quarters," said president and CEO A. M. Waddell.

Waddell said second-quarter earnings would have been worse if Hajoca had not benefited from the sale of assets of its Grimes Pipe & Supply subsidiary. The company purchased that operation, which has branches in Wyoming and Colorado, late in 1978, the year Hajoca changed its name from Gable Industries.

Hajoca withdrew from "this growing market area" because of operating problems that included resignations of key Grimes personnel, Waddell said in the company's midyear report. □

Fastener show scheduled for Columbus June 3-4

COLUMBUS, OHIO—The first annual National Industrial Fastener Show and Conference will be held here June 3-4, 1981.

The show, which is not connected with any distributor or manufacturers association, has space for a minimum of 150 exhibitors. Space is available for suppliers, importers and master distributors at the Ohio Center. Accommodations will be available at the Hyatt Regency Columbus.

Interested distributors should contact the National Industrial Fastener Show & Conference at 50 W. Broad St., Suite 1331, Columbus, Ohio 43215. □

Templeton, Kenley & Co. names Fromm as CEO

BROADVIEW, ILL.—H. Gordon Fromm has been named president and chief executive officer of Templeton, Kenley & Co.

Fromm, who had been corporate director of manpower planning at Bell & Howell Co., replaces Thomas Y. Bowen, who left the company. Fromm's other work experience includes positions with Marathon Electric Co., Sun Chemical Corp., International Latex Corp and Johnson & Johnson. □

STAFDA SURVEY...

[continued from page 7]

and saw, 1.1%; other, 1.1%.

Employee compensation (average ranges): outside salesmen, $17,298 to $32,310; inside salesmen $13,132 to $19,336; counter help, $11,633 to $15,333; warehouse supervisors, $13,175 to $17,471; clerical help, $9077 to $13,615; truck drivers, $9716 to $12,649.

Fringe benefits: hospital-surgical, 98.8% have it, and of those who do, 32.9% share costs with employees; long-term disability, 47% have, 25.3% share costs; life insurance, 70.7% have, 19.8% share costs; dental insurance, 24.7% have, 19.5% share costs; profit sharing, 51.8% have, 8.1% share costs; pension, 35.6% have, 10.3% share costs.

Product liability: 13.2% had claims filed against them in the prior 24 months; 6.8% reported difficulty in getting coverage; 37.2% has premium hikes; 20% saw decreases, and 49% stayed even.

Computers: 38.6% had in-house EDP service, using 44 brands and models.

Operations: Inventory valuation method—LIFO, 37%; FIFO, 42.5%; other, 20.5%; calendar-year basis—33.3% use it; business-interruption insurance—38.1% have it; 40.4% applied for a business loan in prior six months.

Federal contacts: 30.5% reported being visited by a Federal agency in the prior 24 months; 74% of the visits were from the IRS, 18% from OSHA, 8% from the Equal Employment Opportunity Commission, 4% from the Labor Dept., with one visit each (10% of the total) from the Government Services Administration, the FBI, the Food and Drugs Administration and the Small Business Administration.

Sales: over-the-counter, median of 15%; drop shipments, median of 3%; minimum-billing charge, 37% have it, with a median of $10; minimum-delivery charge, 16.6% have it, with a median of $25; cash discount, 58.9% use it, with the most popular 2%-10 days (32.3%).

Sales compensation: 11.8% use straight salary for outside salesmen; straight commission, 17.4%; salary plus commission, 19.2%; salary plus commission and bonus, 46%; other, 5.6%.

Direct-sales competition: 40.9% said it increased last year; 14.5% said it decreased; 44.6% said it held firm. □

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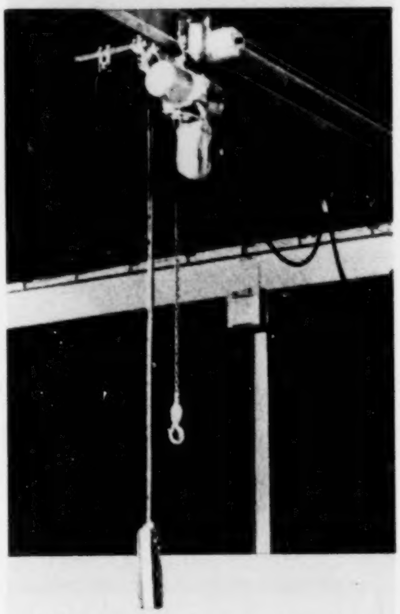

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REGIONAL REPORT

July sales continue decline

Distributor sales stayed in the minus column for the third consecutive month in July, according to *Regional Report* respondents.

The exceptions to the rule were those regions that have tended to fare well during this downturn—east south central, west south central and Pacific—but even there some weakness was apparent.

Overall figures on the year-ago and year-to-date periods also indicate that distributor sales, on the average, are not keeping up with inflation.

Two signs that appeared during July offered some encouragement to those watching the pace of industrial activity.

First, new factory orders for durable goods rose a seasonally adjusted 8.4%, to $72.06 billion, following the drops of 1.3% in June and 7% in May.

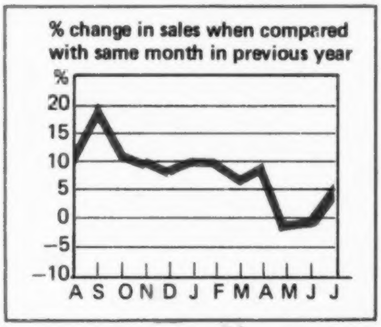
On top of that, the Commerce Dept.'s index of leading indicators rose a record 4.6%—1.4% above the previous high recorded in June 1975.

Despite those developments, however, Government economists cautioned that the recession, with its declines in manufacturing activity and employment, probably had not yet peaked.

The main reason: Business are feeding off of inventories that accumulated in the first half of the year when sales began to slump. □

RECEIVABLES*	July '80		July '79	
	Gen.	Spec.	Gen.	Spec.
New England	41.0	39.1	40.0	38.3
Middle Atlantic	39.6	42.2	38.1	41.7
South Atlantic	32.7	39.5	33.9	36.9
East North Central	41.7	40.5	39.3	38.0
East South Central	39.9	42.0	46.2	41.3
West North Central	43.0	41.8	43.9	46.1
West South Central	37.2	39.0	36.3	36.5
Mountain	46.3	36.8	45.7	35.6
Pacific	38.4	41.8	41.2	41.8
National	40.0	40.3	40.5	39.6

*Average days outstanding


% change in sales when compared with same month in previous year

Despite the June-to-July drop, sales volume was still 5% above the level of July 1979...

SALES BY REGIONS (% change)	July '80 vs. June '80			July '80 vs. July '79			7 mos. '80 vs. 7 mos.'79		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Me.	−2	−1	−2	14	9	12	12	16	13
Connecticut	−4	7	2	16	10	13	19	20	20
Massachusetts	4	−8	−1	3	9	6	10	12	11
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−5	−6	−5	9	12	10	10	10	10
New York Metropolitan Area	−13	−2	−6	−2	19	11	12	11	11
Upstate New York	10	−4	3	33	16	25	17	15	16
Pennsylvania	−13	−24	−18	−3	−2	−3	1	11	5
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−5	1	−3	3	13	7	5	15	9
Georgia-Florida	−14	−5	−10	4	12	8	15	18	17
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−4	1	−2	−7	4	−2	−3	6	
Indiana	−10	11	1	1	12	7	1	9	5
Wisconsin	8	−8	2	9	15	11	10	9	10
Chicago	−1	11	6	−12	−1	−6	−5	8	2
Michigan	−16	−8	−13	−25	−7	−19	−13	1	−8
Ohio	−3	1	−2	−7	−1	−5	−6	2	−3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	11	−5	4	−8	1	−5	1	12	6
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	−19	−10	−15	−24	−6	−15	1	4	3
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	4	4	4	14	17	16	11	19	−16
Texas	−11	8	3	12	11	11	11	−2	1
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−6	−14	−12	−15	1	−3	11	12	12
PACIFIC: Calif., Ore., Wash.	6	6	6	15	8	11	9	7	8
L.A.-San Diego	13	4	8	32	7	18	12	10	11
Oregon-Washington	−1	7	3	−2	8	3	5	3	4
U.S. TOTALS	−3	−1	−2	3	7	5	6	10	8